

Schwab Tax-Free Bond Funds

Annual Report

August 31, 2003

Schwab Short/Intermediate
Tax-Free Bond Fund™

Schwab Long-Term
Tax-Free Bond Fund™

Schwab California
Short/Intermediate
Tax-Free Bond Fund™

Schwab California Long-Term
Tax-Free Bond Fund™

charles **SCHWAB**

Four funds designed to offer tax-free income.

In this report

Management's Discussion 2

The president of SchwabFunds® and the funds' manager take a look at the factors that shaped fund performance during the report period.

Performance at a Glance 5

Schwab Short/Intermediate Tax-Free Bond Fund™

Ticker Symbol: **SWITX**

The fund seeks high current income that is exempt from federal income tax, consistent with capital preservation.¹

Performance and Fund Facts 7

Financial Statements 15

Schwab Long-Term Tax-Free Bond Fund™

Ticker symbol: **SWNTX**

The fund seeks high current income that is exempt from federal income tax, consistent with capital preservation.¹

Performance and Fund Facts 9

Financial Statements 25

Schwab California Short/Intermediate Tax-Free Bond Fund™

Ticker symbol: **SWCSX**

The fund seeks high current income exempt from federal and California personal income tax that is consistent with capital preservation.¹

Performance and Fund Facts 11

Financial Statements 34

Schwab California Long-Term Tax-Free Bond Fund™

Ticker symbol: **SWCAX**

The fund seeks high current income exempt from federal and California personal income tax that is consistent with capital preservation.¹

Performance and Fund Facts 13

Financial Statements 43

Financial notes 52

Fund Trustees 56

Glossary 59

Fund manager: Charles Schwab Investment Management, Inc. Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

¹ A portion of income may be subject to the alternative minimum tax (AMT) and, for the national funds, state and local income taxes as well.

From the Chairman



Charles R. Schwab
Chairman

With the stock market showing signs of life, and many expecting bond prices to decline, many investors are wondering whether this is a good time to own bonds. As someone who has faith in the long-term potential of stocks, I certainly understand where this question is coming from. However, the truth is that owning stocks and owning bonds is not an either/or proposition. A well-balanced portfolio contains both.

Perhaps the most important reason to own bonds is to help protect you against the things you can't predict. In 2000, how many U.S. investors expected a three-year stock market downturn? I doubt that in 1990 many people in Japan expected a 12-year downturn, either. Yet both happened. Similarly, we were all caught off-guard by the terrible events of 9/11. In the wake of this tragedy, investors clamored for Treasury securities, bidding up their prices while stocks stumbled.

Can you lose money investing in bond funds? Absolutely. When bond yields increase, prices decline. But the point of owning a diversified portfolio is that it is nearly impossible to successfully time the market. That's why at Schwab we have long advocated a disciplined approach towards asset allocation.

If you have any questions about the allocation of your portfolio, or whether owning bond funds makes sense in your portfolio, I hope you will feel free to draw on the expertise of our professionals. That's why they're there: to help you find answers.

Thank you for your continued trust in SchwabFunds®.

Sincerely,

A handwritten signature in dark ink that reads "Charles Schwab". The signature is written in a cursive, flowing style.

Management's Discussion for the year ended August 31, 2003



Randall W. Merk is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The second half of the report period saw what could be a turning point in the bond markets. After a long decline to historically low levels, interest rates rebounded sharply in June of 2003, which meant lower share prices for many bond funds. On the next few pages we discuss some of the factors that, in our view, contributed to this trend, and what it meant for the funds covered in this report.

With their regular income and historically lower volatility (compared with stocks), bonds do have the potential to help cushion a portfolio against the effects of stock market volatility. It appears unlikely that bonds will continue to post the significant total returns we've seen in recent years. However, the basic reasons for keeping bond investments in a portfolio—income and lower volatility—are always worth remembering. I believe these reasons are as valid today as they have been in the past.

Before closing, I want to say a few words about an issue that has been in the headlines recently: mutual fund integrity. Along with management expertise and customer service, integrity is a key element of what we have to offer. All of us at SchwabFunds® strive to maintain high standards in our operations. Nevertheless, we continue to scrutinize our operations. We believe that treating all shareholders equally is a basic principle of a mutual fund, and it's a principle we at SchwabFunds take very seriously.

Nothing means more to our business than the trust of our shareholders. We don't take that trust for granted. I want to thank you for investing with us, and I hope you'll let us know if there is anything else we can do to help you reach your financial goals.

Sincerely,

A handwritten signature in black ink that reads "Randall W. Merk". The signature is written in a cursive, flowing style.

Past performance does not indicate future results.



Joanne Larkin, a vice president of the investment adviser, has had overall management responsibility for the funds since their inception. She joined the firm in 1992, and has worked in fixed-income asset management and research since 1984.

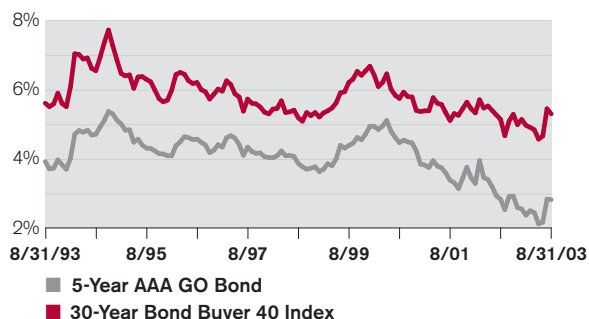
The Economy and the Market

Economic uncertainty gradually gave way to more encouraging economic signs toward the end of the report period. The beginning of the report period saw the U.S. economy behaving more or less as it had since late 2001, with no clear signs of either significant growth or contraction. In March 2003, not long after the conclusion of major hostilities in Iraq, stock prices began to rise, and by the end of the report period, it appeared that the economy was finally beginning to gather strength.

The Federal Reserve (the Fed) cut short-term interest rates twice during the period. The two cuts—0.50% in November 2002 and 0.25% in June 2003—brought the Fed funds target rate to an historic low of 1.00%. The cuts reflected the Fed's concerns that an economic recovery was not materializing as rapidly as one might have hoped and deflation remained a risk.

The bond market reacted dramatically to the Fed's June 2003 rate cut. Yields of benchmark 10-year Treasury bonds, which had been drifting downward since before the beginning of the report period, suddenly skyrocketed. In keeping with their inverse relationship to yields, market prices of these bonds began the period drifting upward, then plummeted after the June cut.

Yields of Municipal Securities: Effective Yields of Five-Year and 30-Year Municipal Bonds



The spread between short- and long-term muni yields continued to widen throughout the report period, as short-term yields fell faster than long-term yields.

Yields, or interest rates, represent the cost of borrowing money. Rapid economic growth, waning investor interest in bonds, an increase in the issuance of bonds, or the expectation of higher inflation can drive rates up, while the opposite conditions can push rates down.

Data source: Bloomberg L.P.

Compared with taxable bonds, the performance of muni bonds generally remained very robust throughout the period.

Why did this particular rate cut—which, after all, was the 13th made by the Fed since January of 2001—have such a significant effect on bond markets? We believe the answer is twofold. First, the bond market seemed to be expecting a cut of half a percent. By lowering the Fed funds rate by only a quarter of a percent, the Fed was seen as signaling that its outlook for the economy was positive.

Second, prior to the cut, many investors appeared to believe the Fed was prepared to resort to unconventional easing methods, since short-term rates could not be cut much further. In particular, the Fed had indicated that it might begin to purchase longer-term Treasury bonds, which would raise their value and therefore lower yields. When, at the time of the June 2003 rate cut, the Fed also stated that it was no longer considering unconventional easing, the price of longer Treasuries, which had risen in anticipation of Fed purchases, fell back again.

The yield spreads between Treasuries and all grades of corporates narrowed dramatically. From early within the report period almost until the end, the difference between yields offered by corporate bonds and those offered by benchmark 10-year Treasury bonds narrowed. It was the fastest and largest decline in at least 14 years.

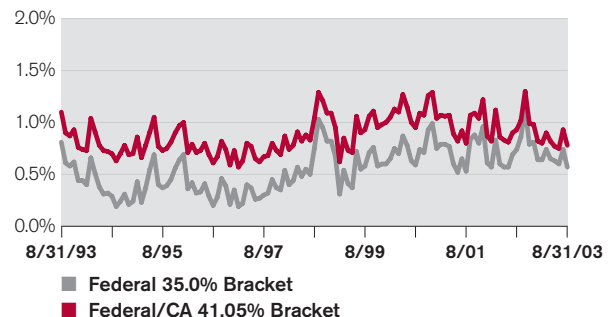
It is our belief that this decline reflected a growing perception on the part of bond investors that most corporations that had survived the difficulties of the past few years were not likely to suffer significant financial

Yield Advantage of Munis over Treasuries: For Five-Year Bonds; Tax Brackets Shown are the Highest Applicable

Tremendous investor demand for quality brought Treasury yields so low that the yield advantage of munis increased substantially.

This chart shows how much more the average five-year muni yielded than the average five-year Treasury after federal (or combined California and federal) income tax.

Data source: Bloomberg L.P.



Performance at a Glance

Total return for the 12 months ended 8/31/03

Schwab Short/Intermediate Tax-Free Bond Fund™ **2.50%**
Index **3.06%**
Category Average¹ **2.09%**

Performance Details page 7

Schwab Long-Term Tax-Free Bond Fund™ **4.01%**
Index **3.14%**
Category Average² **2.07%**

Performance Details page 9

Schwab California Short/Intermediate Tax-Free Bond Fund™ **2.15%**
Index **3.06%**
Category Average³ **1.52%**

Performance Details page 11

Schwab California Long-Term Tax-Free Bond Fund™ **2.14%**
Index **3.14%**
Category Average⁴ **1.34%**

Performance Details page 13

setbacks going forward. The difference in risk between Treasuries (which are essentially considered risk-free) and corporate bonds was therefore perceived to be substantially less than it had been for the past several years.

Most sectors of the bond market posted positive total returns for the report period, but lagged well behind the robust returns posted by most types of stocks. In general, corporate bonds were the stand-out story in terms of bond total return during the period. Muni bonds also performed well, with yields during the period approaching those of Treasuries, even before factoring in the effect of taxes (chart, page 4).

The Funds

All of the funds posted net gains for the report period and met the goal of providing tax-free income. Throughout the period, each fund maintained about three-quarters of its assets or more in bonds in the top two credit categories. With muni investors concerned about credit quality in light of many states' well-publicized fiscal woes, high-quality bonds were in demand during the report period, which made a positive contribution to fund performance.

Issuance of muni bonds ran at record-setting levels during the report period. Two reasons contributing to this trend were the eagerness of municipal issuers to bring bonds to market while rates are still relatively low, and the decision of numerous states to resort to bond financing to help cope with budget deficits.

Nationally, the state with the most widely publicized budget problems was California. This affected the two California funds as well as the two national funds, as California's issuance of new bonds was so great that it

All fund and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Each fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. Past performance does not indicate future results.

Expenses may be partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

A portion of income may be subject to the alternative minimum tax (AMT) and, for the national funds, state and local income tax as well.

¹ Source for category information: Morningstar, Inc. As of 8/31/03, there were 96 funds in the Municipal Short Bond Fund category for the one-year period, 73 for the five-year period and 31 for the ten-year period.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 259 funds in the Municipal National Long Bond Fund category for the one-year period, 205 for the five-year period and 110 for the ten-year period.

³ Source for category information: Morningstar, Inc. As of 8/31/03, there were 52 funds in the Municipal California Intermediate/Short Bond Fund category for the one-year period, 34 for the five-year period and 15 for the ten-year period.

⁴ Source for category information: Morningstar, Inc. As of 8/31/03, there were 132 funds in the Municipal California Long Bond Fund category for the one-year period, 106 for the five-year period and 59 for the ten-year period.

As of the end of the report period, all funds in this report were positioned to take advantage of a modest economic recovery and to weather a degree of volatility.

was noticeable in the muni market nationwide. One result was that the yields on California bonds rose, in part because of the reduction in credit quality but also because the higher volume of issuance meant a plentiful supply at a time when many bond investors already held as many California bonds as they preferred to own.

Credit issues also affected some bond sectors. Tobacco settlement bonds and unenhanced airport and airline bonds underperformed during the report period, while enhanced bonds (bonds whose credit is supplemented by a third party) and bonds for essential services outperformed. Performance of all four funds benefited by our decision to avoid tobacco and unenhanced airport or airline bonds.

In Schwab Short-Intermediate Tax-Free Bond Fund™ and Schwab Long-Term Tax-Free Bond Fund™, our holdings of California bonds varied during the report period. Given the increase of supply of California General Obligations (a portion of the funds' California holdings), we anticipated them getting cheaper as more came into the market. As a result, we reduced our California General Obligation holdings to zero by the end of the period in the national funds. Our strategy with these holdings was to seek to take advantage of changes in the attractiveness of California bonds relative to other bonds. This strategy allowed us to realize some price appreciation during the period.

On the weighted average maturity front, we kept the short-term fund's maturity close to the long end of its allowable maximum of five years. This helped us to avoid much of the volatility in the short-maturity end of the market.

In the Schwab California Short-Intermediate Tax-Free Bond Fund™ and Schwab California Long-Term Tax-Free Bond Fund™, our challenge during the report period was to identify a large, diverse range of muni bonds, all from California issuers, that met our high standards for credit quality. This was an area where, in our opinion, the strength of our in-house credit research group made a significant difference. Because of their extensive knowledge of the many hundreds of California bond issuers, the credit research group was able to identify bonds that offered attractive yields without exposing shareholders to undue credit risk. We will continue to monitor the state's changing fiscal situation with an eye toward protecting shareholder interests and capitalizing on potential opportunities.

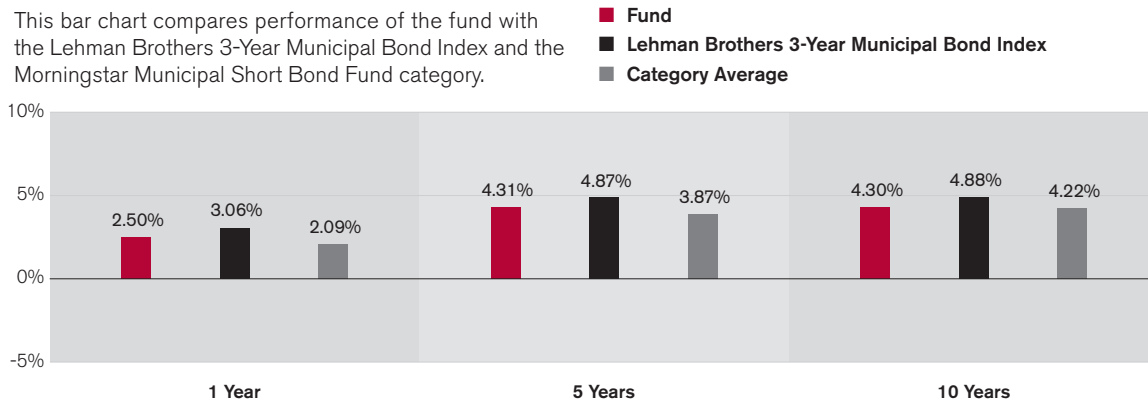
The views expressed here are those of fund management as of the report date and may change subsequent to that date.

Schwab Short/Intermediate Tax-Free Bond Fund™

Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

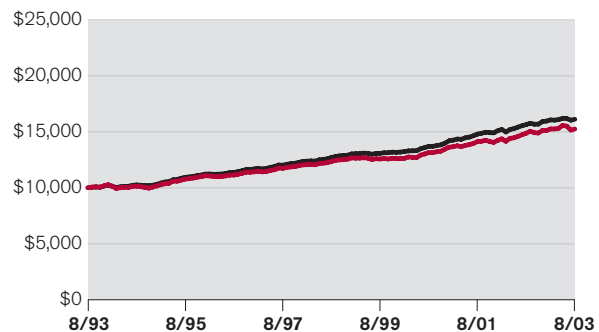
This bar chart compares performance of the fund with the Lehman Brothers 3-Year Municipal Bond Index and the Morningstar Municipal Short Bond Fund category.



Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund, compared with a similar investment in the Lehman Brothers 3-Year Municipal Bond Index.

■ \$15,244 Fund
■ \$16,113 Lehman Brothers 3-Year Municipal Bond Index



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. Past performance does not indicate future results.

¹ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 96 funds in the Municipal Short Bond Fund category for the one-year period, 73 for the five-year period and 31 for the ten-year period.

Schwab Short/Intermediate Tax-Free Bond Fund™

Fund Facts as of 8/31/03

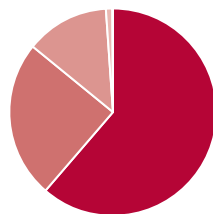
Statistics

Number of Holdings	67	Weighted Average Maturity	4.6 yrs
Fund Category¹		Weighted Average Duration	3.9 yrs
Interest Rate Sensitivity	Short	Weighted Average Credit Quality	AAA
Credit Quality	High	Portfolio Turnover Rate	11%
30-Day SEC Yield²	2.32%		
12-Month Yield	2.87%		
Taxable-Equivalent Yield²	3.57%		

Portfolio Composition

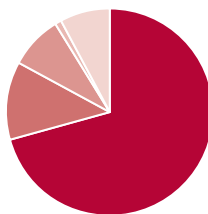
These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity. All figures are shown as a percentage of the fund's investments. Holdings may have changed since the report date.

By Security Type



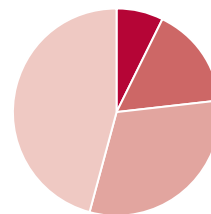
61.3%	Revenue Bonds
24.6%	General Obligation Bonds
13.0%	Certificates of Participation
1.0%	Special Tax Bonds
0.1%	Other Investment Companies

By Credit Quality³



70.7%	AAA
12.2%	AA
8.3%	A
1.0%	BBB
7.8%	Short-Term Ratings or Unrated Securities

By Maturity



7.3%	0-6 Months
15.9%	7-36 Months
31.0%	37-60 Months
45.8%	More than 60 Months

¹ Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

² This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest federal tax bracket (35.0%). Your tax rate may be different. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

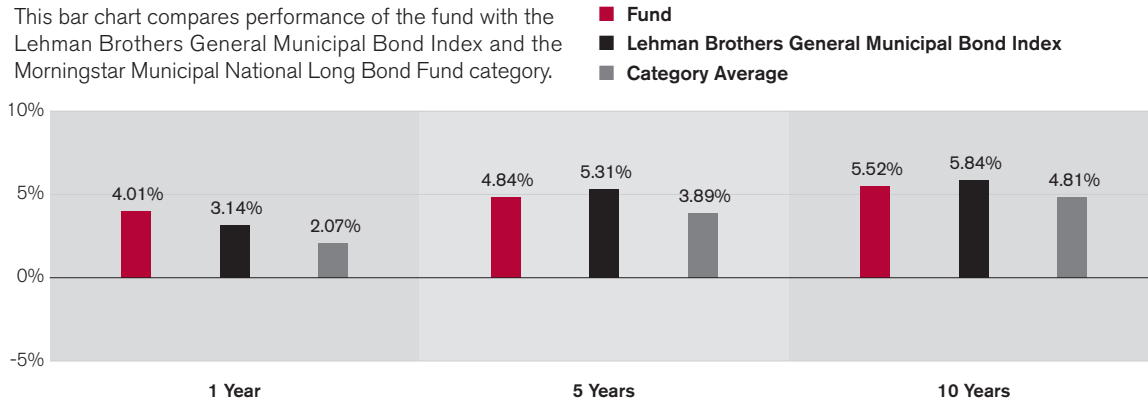
³ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab Long-Term Tax-Free Bond Fund™

Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

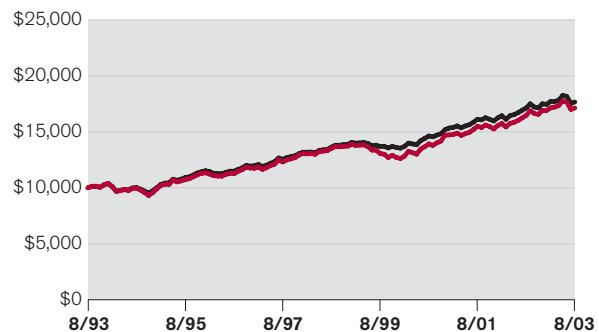
This bar chart compares performance of the fund with the Lehman Brothers General Municipal Bond Index and the Morningstar Municipal National Long Bond Fund category.



Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in the Lehman Brothers General Municipal Bond Index.

■ \$17,121 Fund
■ \$17,655 Lehman Brothers General Municipal Bond Index



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¹ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 259 funds in the Municipal National Long Bond Fund category for the one-year period, 205 for the five-year period and 110 for the ten-year period.

Schwab Long-Term Tax-Free Bond Fund™

Fund Facts as of 8/31/03

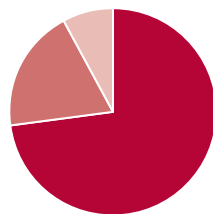
Statistics

Number of Holdings	46	Weighted Average Maturity	14.3 yrs
Fund Category¹		Weighted Average Duration	8.6 yrs
Interest Rate Sensitivity	Long	Weighted Average Credit Quality	AAA
Credit Quality	High	Portfolio Turnover Rate	22%
30-Day SEC Yield²	4.20%		
12-Month Yield	4.08%		
Taxable-Equivalent Yield²	6.46%		

Portfolio Composition

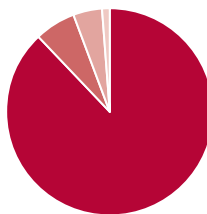
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By Security Type



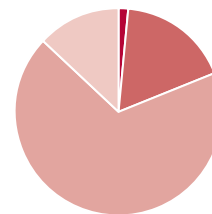
■ 72.9% Revenue Bonds
 ■ 19.2% General Obligation Bonds
 ■ 7.9% Certificates of Participation

By Credit Quality³



■ 87.9% AAA
 ■ 6.4% AA
 ■ 4.5% A
 ■ 1.2% BBB

By Maturity



■ 1.5% 0-1 Year
 ■ 17.4% 2-10 Years
 ■ 68.1% 11-20 Years
 ■ 13.0% 21-30 Years

¹ Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

² This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest federal tax bracket (35.0%). Your tax rate may be different. Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's 30-day SEC yield would have been 4.196%. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

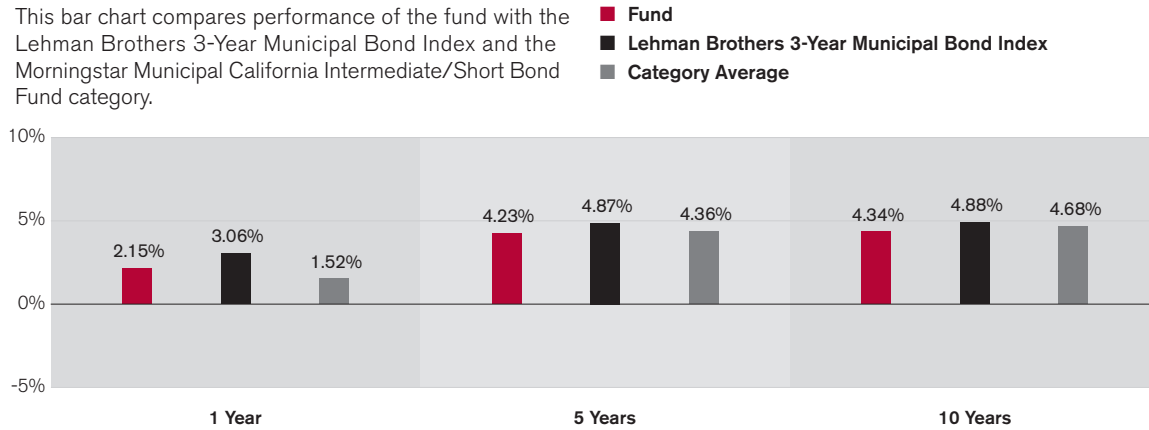
³ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab California Short/Intermediate Tax-Free Bond Fund™

Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

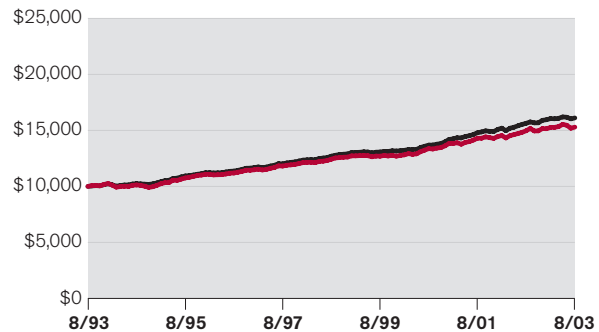
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Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund, compared with a similar investment in the Lehman Brothers 3-Year Municipal Bond Index.

■ \$15,294 Fund
■ \$16,113 Lehman Brothers 3-Year Municipal Bond Index



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² Source for category information: Morningstar, Inc. As of 8/31/03, there were 52 funds in the Municipal California Intermediate/Short Bond Fund category for the one-year period, 34 for the five-year period and 15 for the ten-year period.

Schwab California Short/Intermediate Tax-Free Bond Fund™

Fund Facts as of 8/31/03

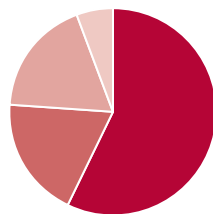
Statistics

Number of Holdings	69	Weighted Average Maturity	4.4 yrs
Fund Category¹		Weighted Average Duration	3.5 yrs
Interest Rate Sensitivity	Short	Weighted Average Credit Quality	AA
Credit Quality	High	Portfolio Turnover Rate	11%
30-Day SEC Yield²	2.34%		
12-Month Yield	2.99%		
Taxable-Equivalent Yield²	3.97%		

Portfolio Composition

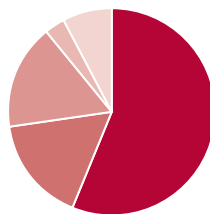
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By Security Type



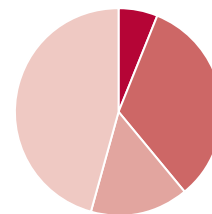
■ 57.2% **Revenue Bonds**
 ■ 18.9% **General Obligation Bonds**
 ■ 18.2% **Certificates of Participation**
 ■ 5.7% **Special Tax Bonds**

By Credit Quality³



■ 56.2% **AAA**
 ■ 16.5% **AA**
 ■ 16.4% **A**
 ■ 3.2% **BBB**
 ■ 7.7% **Short-Term Ratings or Unrated Securities**

By Maturity



■ 6.1% **0-6 Months**
 ■ 32.9% **7-36 Months**
 ■ 15.3% **37-60 Months**
 ■ 45.7% **More than 60 Months**

¹ Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

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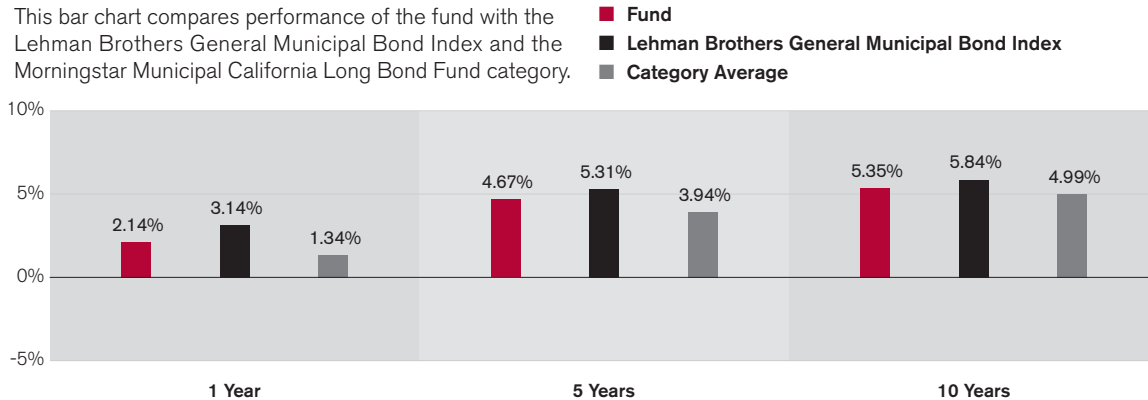
³ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab California Long-Term Tax-Free Bond FundTM

Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

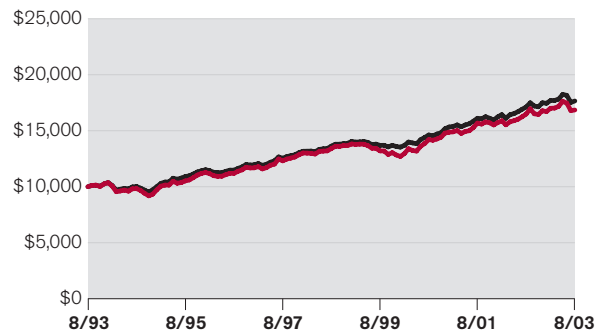
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■ \$17,655 Lehman Brothers General Municipal Bond Index



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. Past performance does not indicate future results.

¹ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 132 funds in the Municipal California Long Bond Fund category for the one-year period, 106 for the five-year period and 59 for the ten-year period.

Schwab California Long-Term Tax-Free Bond Fund™

Fund Facts as of 8/31/03

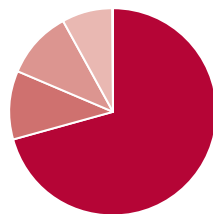
Statistics

Number of Holdings	80	Weighted Average Maturity	18.4 yrs
Fund Category¹		Weighted Average Duration	9.7 yrs
Interest Rate Sensitivity	Long	Weighted Average Credit Quality	AA
Credit Quality	High	Portfolio Turnover Rate	29%
30-Day SEC Yield²	4.47%		
12-Month Yield	4.29%		
Taxable-Equivalent Yield²	7.58%		

Portfolio Composition

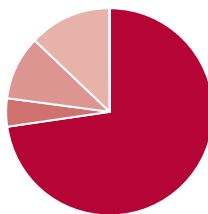
These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity. All figures are shown as a percentage of the fund's investments. Holdings may have changed since the report date.

By Security Type



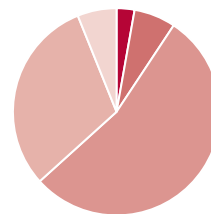
70.7%	Revenue Bonds
10.7%	Special Tax Bonds
10.6%	General Obligation Bonds
7.9%	Certificates of Participation
0.1%	Other Investment Companies

By Credit Quality³



72.7%	AAA
4.4%	AA
10.0%	A
12.8%	BBB
0.1%	Short-Term Ratings or Unrated Securities

By Maturity



2.8%	0-1 Year
6.5%	2-10 Years
54.0%	11-20 Years
30.6%	21-30 Years
6.1%	More than 30 Years

¹ Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

² This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest combined federal and California tax bracket (41.05%). Your tax rate may be different. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

³ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab Short/Intermediate Tax-Free Bond Fund

Financial Statements

Financial Highlights

	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	9/1/99– 8/31/00	9/1/98– 8/31/99
Per-Share Data (\$)					
Net asset value at beginning of period	10.63	10.42	10.08	10.05	10.26
Income from investment operations:					
Net investment income	0.30	0.35	0.39	0.41	0.40
Net realized and unrealized gains or losses	(0.04)	0.20	0.34	0.03	(0.21)
Total income from investment operations	0.26	0.55	0.73	0.44	0.19
Less distributions:					
Dividends from net investment income	(0.30)	(0.34)	(0.39)	(0.41)	(0.40)
Net asset value at end of period	10.59	10.63	10.42	10.08	10.05
Total return (%)	2.50	5.37	7.42	4.50	1.86
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.60	0.49	0.49	0.49 ¹	0.49
Gross operating expenses	0.63	0.70	0.73	0.75	0.81
Net investment income	2.83	3.29	3.84	4.11	3.87
Portfolio turnover rate	11	28	14	11	8
Net assets, end of period (\$ x 1,000,000)	159	139	109	76	87

¹ The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had been included.

Schwab Short/Intermediate Tax-Free Bond Fund

Portfolio Holdings as of August 31, 2003

This section shows all the securities in the fund's portfolio and their market value, as of the report date. We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
- + Credit-enhanced security
- ▶ Liquidity-enhanced security
- Certificate of participation

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation

was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Market Value (\$x1,000)
99.9%	Municipal Bonds	154,043	158,141
0.1%	Other Investment Companies	129	129
100.0%	Total Investments	154,172	158,270

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Municipal Bonds 99.9% of investments

Fixed-Rate Obligations 96.2%

Arizona 5.5%

Alhambra School District

+ Refunding Bonds, Series 1994A	6.80%	07/01/04	1,485	1,585
+ Refunding Bonds, Series 1994A	6.80%	07/01/12	515	543

+ ② Arizona State

Refunding Bonds, Series 2002B	5.00%	09/01/07	5,000	5,492
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Phoenix Civic Improvement Corp.

Airport Terminal

Senior Lien Excise Tax Revenue Refunding Bonds, Series 1998	5.00%	07/01/04	1,000	1,029
				8,649

California 17.3%

Alameda Public Financing Authority

1997 Revenue Bond Refinancing

Revenue Bonds, Series 1999	4.95%	09/02/07	2,065	2,133
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California Department of Water Resources

Power Supply Revenue Bonds, Series 2002A	5.50%	05/01/10	1,000	1,092
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+ California Public Works Board

UCLA Replacement Hospitals

Lease Revenue Bonds, Series 2002A	4.75%	10/01/09	3,005	3,262
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▶ ① California State

Revenue Anticipation Warrants, Series 2003B	2.00%	06/16/04	10,000	10,011
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California Statewide Communities Development Authority

Kaiser Permanente Project

Revenue Bonds, Series 2002D	4.35%	03/01/07	3,000	3,109
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Schwab Short/Intermediate Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Santa Clara County Financing Authority <i>Measure B Transportation Improvement Program</i> Special Obligation Bonds, Series 2003	4.00%	08/01/06	3,000	3,153
+4 William S. Hart Union High School District <i>School Facility Bridge Funding Program</i> Series 2001	2.40%	01/15/04	4,675	4,677
				27,437
Colorado 0.5%				
+ Boulder County Superior Metropolitan District No. 2 General Obligation Refunding Bonds, Series 1998	4.63%	12/01/13	870	876
District of Columbia 2.7%				
+7 Washington D.C. Convention Center Authority Dedicated Tax Senior Lien Revenue Bonds, Series 1998	5.00%	10/01/06	4,000	4,348
Georgia 2.5%				
+9 Atlanta Georgia Airport General Revenue Refunding Bonds, Series 2003RF-A	5.00%	01/01/10	3,660	3,956
Illinois 0.7%				
+ Chicago Public Building Commission <i>Board of Education Building</i> Revenue Bonds, Series 1999C	5.50%	02/01/06	1,000	1,083
Indiana 2.1%				
+ Lake County <i>First Mortgage</i> Lease Revenue Bonds, Series 2000	5.25%	08/01/09	2,040	2,266
+ Monroe County <i>Bloomington Hospital, Inc.</i> Hospital Revenue Refunding Bonds, Series 1997	4.60%	05/01/04	1,105	1,129
				3,395
Kentucky 2.5%				
Kentucky Property & Buildings Commission <i>Project No. 71</i> Revenue Bonds	5.50%	08/01/09	3,500	3,954
Louisiana 1.1%				
+ New Orleans Refunding Certificates of Indebtedness, Series 1998B	4.50%	12/01/05	1,600	1,705
Massachusetts 3.1%				
Massachusetts State General Obligation Refunding Bonds, Series 2001A	5.50%	01/01/11	2,500	2,766
+ Consolidated Loan Special Obligation Revenue Bonds, Series 2002A	5.00%	06/01/10	2,000	2,182
				4,948

See financial notes. 17

Schwab Short/Intermediate Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Michigan 4.2%				
+ Detroit				
Limited Tax General Obligation Capital Improvement Bonds, Series 2002A	5.00%	04/01/07	1,000	1,091
+ Detroit City School District				
Unlimited Tax General Obligation School Building & Site Improvement Bonds, Series 1998B	5.00%	05/01/04	1,390	1,426
+ ⑧ Wayne County				
Detroit Metropolitan Wayne County Airport Revenue Refunding Bonds, Series 2002D	5.00%	12/01/10	3,900	4,133
				6,650
Missouri 1.4%				
+ Saint Louis Municipal Finance Corp.				
Convention Center Project Leasehold Revenue Refunding Bonds, Series 2003	5.25%	07/15/10	2,000	2,222
Nebraska 0.7%				
+ American Public Energy Authority				
Nebraska Public Gas Agency Project Gas Supply Revenue Bonds, Series 1998C	4.00%	09/01/07	1,000	1,058
Nevada 1.0%				
+ Henderson				
Seven Hills Senior Limited Obligation Refunding Bonds, Series 2001A	4.63%	08/01/11	1,555	1,633
New Jersey 3.1%				
+ Brick Township Municipal Utilities Authority				
Revenue Refunding Bonds, Series 1996	5.50%	12/01/03	1,000	1,011
+ New Jersey Transit Corp.				
Federal Transit Administration Grants Series 2000B	5.50%	09/15/07	3,500	3,897
				4,908
New York 10.4%				
+ Franklin County				
General Obligation Public Improvement Bonds, Series 1998	4.25%	11/01/06	715	766
New York City				
General Obligation Bonds, Series 1999H	4.75%	03/15/07	3,000	3,173
General Obligation Bonds, Series 2003A	5.25%	08/01/09	1,825	1,971
General Obligation Bonds, Series 2003B	5.25%	08/01/09	1,000	1,080
General Obligation Bonds, Series 2003J	5.00%	06/01/09	2,500	2,663
New York City Transitional Finance Authority				
Future Tax Secured Revenue Bonds, Series 1998B	5.25%	11/15/04	1,300	1,361
+ ⑥ New York State Thruway Authority				
General Highway & Bridge Trust Fund Revenue Bonds, Series 2003A	5.25%	04/01/12	4,000	4,387

Schwab Short/Intermediate Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
New York State Urban Development Corp. <i>Correctional Facilities Service Contract</i> Revenue Bonds, Series 1998A	5.00%	01/01/05	1,000	1,045
				16,446
North Carolina 4.6%				
+ Durham County Enterprise System Revenue Bonds, Series 2002	5.00%	06/01/09	1,495	1,653
North Carolina Municipal Power Agency <i>Catawaba Electric</i>				
+ Revenue Bonds, Series 1995A	5.10%	01/01/07	2,000	2,173
+ Revenue Bonds, Series 1999A	5.75%	01/01/09	3,000	3,387
				7,213
Ohio 4.6%				
Ohio State				
⑩ Administrative Building Fund Projects State Facilities Bonds, Series 1998A	5.13%	10/01/06	3,580	3,921
Higher Education Capital Facilities Bonds, Series II-2001A	5.50%	12/01/08	3,000	3,389
				7,310
Oregon 1.9%				
+ Oregon State <i>Department of Administrative Services</i> Refunding Bonds, Series 2002C	5.00%	11/01/07	2,705	2,992
Pennsylvania 3.6%				
+ Pennsylvania Industrial Development Authority Economic Development Revenue Bonds, Series 1994	7.00%	07/01/07	1,000	1,165
+ ⑤ Philadelphia Water & Sewer Water & Wastewater Revenue Refunding Bonds, Series 2001B	5.50%	11/01/11	4,000	4,485
				5,650
Puerto Rico 3.5%				
+ Puerto Rico Highway & Transportation Authority Revenue Refunding Bonds, Series 2003H	5.00%	07/01/10	2,000	2,150
+ Puerto Rico Municipal Finance Agency General Obligation Bonds, Series 1999A	5.50%	08/01/08	3,000	3,387
				5,537
South Carolina 2.0%				
+ Charleston County <i>Care Alliance Health Services</i> Revenue Bonds, Series 1999A	4.25%	08/15/07	3,000	3,207
Texas 10.3%				
+ ③ Dallas Water & Sewer Utilities Revenue Refunding & Improvement Bonds, Series 2003	5.00%	10/01/10	5,000	5,463

See financial notes. 19

Schwab Short/Intermediate Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
+ Denton Utility System				
Revenue Refunding & Improvement Bonds, Series 2001	5.00%	12/01/12	2,030	2,158
Fort Worth				
General Purpose Improvement & Refunding Bonds, Series 2001	5.00%	03/01/10	1,090	1,182
Gulf Coast Waste Disposal Authority				
<i>Waste Management of Texas, Inc. Brazoria County Project</i> Solid Waste Disposal Revenue Bonds, Series 2003A	2.85%	05/01/04	1,650	1,650
+ Houston Port Authority				
Port Improvement General Obligation Bonds, Series 2001B	5.25%	10/01/10	2,205	2,413
+ Tarrant Regional Water District				
Water Revenue Refunding & Improvement Bonds, Series 2002	5.00%	03/01/10	3,140	3,410
				16,276
Washington 6.2%				
+ Port of Seattle				
<i>Passenger Facility Charge</i> Revenue Bonds, Series 1998B	5.00%	12/01/07	1,395	1,514
+ Snohomish County				
Refunding Limited General Obligation Bonds	4.50%	12/01/12	1,920	1,985
+ Washington State				
<i>Department of Ecology State Building Project</i> Refunding Bonds	4.75%	04/01/12	1,710	1,784
+ Washington State Public Power Supply System				
<i>Nuclear Project No. 2</i> Refunding Revenue Bonds, Series 1993A	5.70%	07/01/08	4,000	4,543
				9,826
Wisconsin 0.7%				
Wisconsin Health & Educational Facilities Authority				
<i>Carroll College, Inc. Project</i> Revenue Bonds, Series 1998	4.80%	10/01/06	1,000	1,062
Variable Rate Obligations 3.7%				
Alaska 1.6%				
Valdez				
<i>Exxon Pipeline Co. Project</i> Marine Terminal Revenue Refunding Bonds, Series 1993C	0.80%	09/02/03	2,500	2,500
Georgia 0.1%				
+ Atlanta				
Water & Wastewater Revenue Bonds, Series 2002C	0.80%	09/02/03	200	200

Schwab Short/Intermediate Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Mississippi 1.3%				
Jackson County <i>Chevron U.S.A., Inc. Project</i> Pollution Control Revenue Refunding Bonds, Series 1993	0.80%	09/02/03	2,000	2,000
New York 0.6%				
➔ New York City General Obligation Bonds, Series 1992B	0.80%	09/02/03	1,000	1,000
Tennessee 0.1%				
➔ Clarksville, Tennessee Public Building Authority Adjustable Rate Pooled Financing Revenue Bonds, Series 2003	0.80%	09/02/03	100	100
Security and Number of Shares				Mkt. Value (\$ x 1,000)
Other Investment Companies 0.1% of investments				
Provident Institutional Funds– Muni Fund Portfolio 128,828				129

End of portfolio holdings. For totals, please see the first page of holdings for this fund.

Schwab Short/Intermediate Tax-Free Bond Fund

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value	\$158,270
Receivables:	
Fund shares sold	205
Interest	2,092
Prepaid expenses	+ 18
Total assets	160,585

Liabilities

Payables:	
Fund shares redeemed	805
Dividends to shareholders	402
Investment adviser and administrator fees	4
Transfer agent and shareholder service fees	3
Accrued expenses	+ 36
Total liabilities	1,250

Net Assets

Total assets	160,585
Total liabilities	- 1,250
Net assets	\$159,335

Net Assets by Source

Capital received from investors	155,695
Net investment income not yet distributed	17
Net realized capital losses	(475)
Net unrealized capital gains	4,098

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$159,335		15,043		\$10.59

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$154,172. Not counting short-term obligations, the fund paid \$33,761 for securities during the reporting period, and received \$15,302 from securities it sold or that matured. Included in the total purchases and sales amounts are \$80,420 in transactions with other SchwabFunds®.

Federal Tax Data

Portfolio cost	\$154,155
Net unrealized gains and losses:	
Gains	\$4,531
Losses	+ (416)
	\$4,115

As of August 31, 2003:

Undistributed earnings:	
Tax-exempt income	\$402
Long-term capital gains	\$—

Capital losses utilized	\$74
--------------------------------	------

Unused capital losses:

Expires 08/31 of:	
2004	296
2009	146
2010	+ 33
	\$475

Reclassifications:

Expired net realized capital losses	\$34
Reclassified as:	
Capital received from investors	(\$34)

Schwab Short/Intermediate Tax-Free Bond Fund

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Investment Income

Interest	\$5,382
----------	----------------

Net Realized Gains and Losses

Net realized gains on investments sold	74
--	-----------

Net Unrealized Gains and Losses

Net unrealized losses on investments	(801)
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Expenses

Investment adviser and administrator fees	470
Transfer agent and shareholder service fees	392
Trustees' fees	8
Custodian and portfolio accounting fees	15
Professional fees	26
Registration fees	32
Shareholder reports	26
Other expenses	+
	12
Total expenses	981
Expense reduction	-
	37
Net expenses	944

Increase in Net Assets from Operations

Total investment income	5,382
Net expenses	-
	944
Net investment income	4,438
Net realized gains	74
Net unrealized losses	+
	(801)
Increase in net assets from operations	\$3,711

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through at least November 15, 2003, to 0.65% of average daily net assets. Prior to November 16, 2002, this limit was 0.49%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$727.

Schwab Short/Intermediate Tax-Free Bond Fund

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$4,438	\$3,993
Net realized gains	74	34
Net unrealized gains or losses	+ (801)	2,270
Increase in net assets from operations	3,711	6,297

Distributions Paid

Dividends from net investment income	\$4,474	\$3,921
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Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	9,957	\$106,591	8,187	\$85,365
Shares reinvested	297	3,175	241	2,508
Shares redeemed	+ (8,327)	(89,036)	(5,794)	(60,137)
Net transactions in fund shares	1,927	\$20,730	2,634	\$27,736

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	13,116	\$139,368	10,482	\$109,256
Total increase	+ 1,927	19,967	2,634	30,112
End of period	15,043	\$159,335	13,116	\$139,368

Unless stated, all numbers are x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$17 and \$53 for the current and prior period, respectively.

Schwab Long-Term Tax-Free Bond Fund

Financial Statements

Financial Highlights

	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	9/1/99– 8/31/00	9/1/98– 8/31/99
Per-Share Data (\$)					
Net asset value at beginning of period	11.05	10.87	10.24	10.11	11.01
Income from investment operations:					
Net investment income	0.45	0.49	0.50	0.50	0.50
Net realized and unrealized gains or losses	(0.01)	0.17	0.63	0.13	(0.85)
Total income from investment operations	0.44	0.66	1.13	0.63	(0.35)
Less distributions:					
Dividends from net investment income	(0.45)	(0.48)	(0.50)	(0.50)	(0.50)
Distributions from net realized gains	—	—	—	—	(0.05)
Total distributions	(0.45)	(0.48)	(0.50)	(0.50)	(0.55)
Net asset value at end of period	11.04	11.05	10.87	10.24	10.11
Total return (%)	4.01	6.24	11.29	6.59	(3.34)
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.62	0.49	0.49	0.49 ¹	0.49
Gross operating expenses	0.65	0.74	0.74	0.76	0.81
Net investment income	4.06	4.49	4.73	5.11	4.59
Portfolio turnover rate	22	25	35	25	35
Net assets, end of period (\$ x 1,000,000)	81	85	88	76	90

¹ The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had been included.

Schwab Long-Term Tax-Free Bond Fund

Portfolio Holdings as of August 31, 2003

This section shows all the securities in the fund's portfolio and their market value, as of the report date. We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
- + Credit-enhanced security
- Liquidity-enhanced security
- Certificate of participation

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation

was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Market Value (\$x1,000)
100.0%	Municipal Bonds	75,958	80,646
0.0%	Other Investment Companies	3	3
100.0%	Total Investments	75,961	80,649

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Municipal Bonds 100.0% of investments

Fixed-Rate Obligations 98.5%

California 6.9%

California Department of Water Resources

Power Supply Revenue Bonds, Series 2002A

5.88% 05/01/16 2,000 2,170

+ California Infrastructure & Economic Development Bank

Bay Area Toll Bridges

First Lien Revenue Bonds, Series 2003A

5.00% 07/01/29 1,500 1,478

++ Los Angeles Municipal Improvement Corp.

Real Property Improvement Program
Series 2002

5.00% 02/01/18 1,880 1,936

5,584

Colorado 5.4%

+ Colorado Department of Transportation

Revenue Anticipation Notes, Series 2002B

5.50% 06/15/15 2,000 2,245

Denver City & County

+ Airport System

Revenue Refunding Bonds, Series 2002E

5.50% 11/15/15 1,000 1,056

+ Colorado Convention Center Expansion Project

Excise Tax Revenue Bonds, Series 2001A

5.50% 09/01/17 1,000 1,077

4,378

District of Columbia 2.7%

++ District of Columbia

District's Public Safety & Emergency Preparedness
Communications Center and Related Technology
Series 2003A

5.50% 01/01/17 2,000 **2,170**

Schwab Long-Term Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Florida 3.6%				
+ ⑥ Escambia County Health Facilities Authority <i>Ascension Health Credit Group</i> Revenue Bonds, Series 1999A-2	5.75%	11/15/09	2,500	2,898
Georgia 1.5%				
+ Fulton County Development Authority <i>Tuff Morehouse LLC Project</i> Revenue Bonds, Series 2002A	5.50%	02/01/22	1,180	1,241
Hawaii 2.2%				
+ Hawaii General Obligation Bonds, Series 1999CT	5.88%	09/01/09	1,500	1,742
Indiana 1.2%				
+ Marion County Convention & Recreational Facilities Authority Excise Tax Lease Revenue Refunding Senior Bonds, Series 2001A	5.00%	06/01/21	1,000	1,005
Kentucky 1.3%				
+ Jefferson County <i>University Medical Center, Inc.</i> Health Facilities Revenue Bonds, Series 1997	5.25%	07/01/22	1,000	1,013
Maryland 0.4%				
Maryland Department of Housing & Community Development Revenue Bonds, Series 1996A	5.88%	07/01/16	320	337
Michigan 8.1%				
Delta County Economic Development Corp. <i>MeadWestvaco-Escanaba Paper Company Project</i> Environmental Improvement Revenue Refunding Bonds, Series 2002A	6.25%	04/15/27	1,000	1,008
+ ⑦ Detroit <i>Water Supply System</i> Revenue Refunding Senior Lien Bonds, Series 2003C	5.25%	07/01/16	2,620	2,813
+ Eastern Michigan University Board of Regents General Revenue Bonds, Series 1997	5.50%	06/01/17	1,500	1,686
+ Wayne County Community College Improvement Bonds, Series 1999	5.50%	07/01/19	1,000	1,051
				6,558
Mississippi 5.7%				
+ ⑩ Mississippi Hospital Equipment & Facilities Authority <i>Mississippi Baptist Medical Center</i> Revenue Refunding Bonds, Series 1995	6.00%	05/01/13	2,150	2,318
+ Walnut Grove Correctional Authority <i>Walnut Grove Correctional Facility Project</i> Series 1999	6.00%	11/01/19	2,000	2,256
				4,574

See financial notes. 27

Schwab Long-Term Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Nebraska 3.3%				
+⑧ American Public Energy Agency <i>Nebraska Public Gas Agency Project</i> Gas Supply Revenue Bonds, Series 1998C	4.00%	09/01/07	2,500	2,646
Nevada 2.6%				
+ Nevada State Department of Business & Industry <i>Las Vegas Monorail Project</i> First Tier Revenue Bonds, Series 2000	5.63%	01/01/32	2,000	2,091
New York 4.4%				
+ Metropolitan Transportation Authority Revenue Refunding Bonds, Series A	5.50%	11/15/18	2,000	2,156
New York City General Obligation Bonds, Series 2002G	5.75%	08/01/16	1,325	1,416
				3,572
Oregon 4.6%				
+ Columbia River Peoples Utility District Electric Systems Revenue Obligations, Series 2000B	5.50%	12/01/19	1,180	1,264
+⑨ Morrow County School District No. 001 General Obligation Bonds, Series 2001	5.63%	06/15/16	2,235	2,441
				3,705
Pennsylvania 4.5%				
Pennsylvania Higher Education Facilities Authority <i>University of Pennsylvania Health Services</i> Revenue Bonds, Series 1996A	5.75%	01/01/17	2,000	2,053
+ Seneca Valley School District General Obligation Refunding Bonds, Series 1998AA	5.15%	02/15/20	1,500	1,537
				3,590
Rhode Island 0.2%				
Rhode Island Housing & Mortgage Finance Corp. <i>Homeownership Opportunity</i> Revenue Bonds, Series 10A	6.50%	10/01/22	175	177
Texas 15.3%				
+⑥ Austin Electric Water & Sewer System Revenue Refunding Bonds, Series 1997	5.13%	11/15/16	3,000	3,150
+ Brazos River Authority <i>Houston Industries, Inc.</i> Revenue Refunding Bonds, Series 1998A	5.13%	05/01/19	1,750	1,797
+ Conroe Independent School District Unlimited Tax School, House & Refunding Bonds, Series 1997	5.25%	02/15/21	1,000	1,015
+② Dallas Fort Worth International Airport Joint Revenue Bonds, Series 2000A	6.00%	11/01/24	3,500	3,687

Schwab Long-Term Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
+ Harris County Hospital District Revenue Refunding Bonds, Series 2000	6.00%	02/15/16	1,000	1,118
+ Texas Public Finance Authority <i>Texas Southern University</i> Revenue Financing System Refunding Bonds, Series 1998A-1	4.75%	11/01/17	1,545	1,563
				12,330
Vermont 2.8%				
+ Vermont Educational & Health Buildings Financing Agency <i>Fletcher Allen Health Care Project</i> Hospital Revenue Bonds, Series 2000A	6.00%	12/01/23	2,000	2,220
Washington 20.5%				
+ ③ Clark County School District No. 117 Unlimited Tax General Obligation Bonds, Series 1999	5.50%	12/01/17	3,000	3,413
Kent County School District No. 415 Unlimited Tax General Obligation Refunding Bonds, Series 1993A	5.55%	12/01/11	500	561
King County <i>Baseball Stadium</i>				
① Limited Tax General Obligation Demand Notes, Series 1997D	5.75%	12/01/11	3,500	3,867
+ King Street Center Project Lease Revenue Bonds, Series 1997	5.13%	06/01/17	1,000	1,040
+ Ocean Shores Water & Sewer Revenue Bonds, Series 2001	5.50%	12/01/21	2,000	2,253
Washington State Health Care Facilities Authority				
+ ④ Catholic Health Initiatives Revenue Bonds, Series 2000A	6.00%	12/01/20	3,000	3,325
+ Swedish Health System Revenue Bonds, Series 1998	5.13%	11/15/18	2,000	2,072
				16,531
Wisconsin 1.3%				
+ Wisconsin Health & Education Facilities Authority <i>Medical College of Wisconsin, Inc. Project</i> Revenue Bonds, Series 1997	5.50%	03/01/17	1,000	1,084

Schwab Long-Term Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Variable Rate Obligations 1.5%				
New York 1.3%				
+ New York City Municipal Water Finance Authority				
Water & Sewer System				
Revenue Bonds, Series 1994G	0.75%	09/02/03	1,000	1,000
Tennessee 0.2%				
+ Clarksville, Tennessee Public Building Authority				
Pooled Financing Revenue Bonds, Series 2003	0.85%	09/02/03	200	200
Security and Number of Shares				Mkt. Value (\$ x 1,000)
Other Investment Companies 0.0% of investments				
Provident Institutional Funds—				
Muni Fund Portfolio	2,454			3

End of portfolio holdings. For totals, please see the first page of holdings for this fund.

Schwab Long-Term Tax-Free Bond Fund

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value	\$80,649
Receivables:	
Fund shares sold	4
Interest	1,044
Prepaid expenses	+ 12
Total assets	81,709

Liabilities

Payables:	
Fund shares redeemed	35
Dividends to shareholders	309
Investment adviser and administrator fees	2
Transfer agent and shareholder service fees	2
Accrued expenses	+ 30
Total liabilities	378

Net Assets

Total assets	81,709
Total liabilities	- 378
Net assets	\$81,331

Net Assets by Source

Capital received from investors	78,882
Net investment income not yet distributed	125
Net realized capital losses	(2,364)
Net unrealized capital gains	4,688

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$81,331		7,368		\$11.04

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$75,961. Not counting short-term obligations, the fund paid \$17,878 for securities during the reporting period, and received \$18,116 from securities it sold or that matured. Included in the total purchases and sales amounts are \$43,860 in transactions with other SchwabFunds®.

Federal Tax Data

Portfolio cost	\$75,836
Net unrealized gains and losses:	
Gains	\$4,856
Losses	+ (43)
	\$4,813

As of August 31, 2003:

Undistributed earnings:	
Tax-exempt income	\$309
Long-term capital gains	\$—
Capital loss utilized	\$491
Unused capital losses:	
Expires 08/31 of:	
2008	\$111
2009	+ 2,253
	\$2,364

Reclassifications:

Net investment income not yet distributed	(\$14)
Reclassified as:	
Net realized capital gains	\$14

See financial notes. 31

Schwab Long-Term Tax-Free Bond Fund

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Investment Income

Interest	\$4,077
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Net Realized Gains and Losses

Net realized gains on investments sold	477
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Net Unrealized Gains and Losses

Net unrealized losses on investments	(474)
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Expenses

Investment adviser and administrator fees	261
Transfer agent and shareholder service fees	218
Trustees' fees	8
Custodian and portfolio accounting fees	10
Professional fees	26
Registration fees	18
Shareholder reports	18
Other expenses	+
	10
Total expenses	569
Expense reduction	-
	33
Net expenses	536

Increase in Net Assets from Operations

Total investment income	4,077
Net expenses	-
	536
Net investment income	3,541
Net realized gains	477
Net unrealized losses	+
	(474)
Increase in net assets from operations	\$3,544

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through at least November 15, 2003, to 0.65% of average daily net assets. Prior to November 16, 2002, this limit was 0.49%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$3.

Schwab Long-Term Tax-Free Bond Fund

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$3,541	\$3,690
Net realized gains	477	319
Net unrealized gains or losses	+ (474)	890
Increase in net assets from operations	3,544	4,899

Distributions Paid

Dividends from net investment income	\$3,518	\$3,599
--------------------------------------	----------------	----------------

Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,912	\$55,091	3,297	\$35,633
Shares reinvested	204	2,296	198	2,127
Shares redeemed	+ (5,470)	(61,388)	(3,906)	(42,176)
Net transactions in fund shares	(354)	(\$4,001)	(411)	(\$4,416)

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	7,722	\$85,306	8,133	\$88,422
Total decrease	+ (354)	(3,975)	(411)	(3,116)
End of period	7,368	\$81,331	7,722	\$85,306

Unless stated, all numbers are x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$125 and \$116 for the current and prior period, respectively.

Schwab California Short/Intermediate Tax-Free Bond Fund

Financial Statements

Financial Highlights

	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	9/1/99– 8/31/00	9/1/98– 8/31/99
Per-Share Data (\$)					
Net asset value at beginning of period	10.66	10.51	10.22	10.09	10.26
Income from investment operations:					
Net investment income	0.32	0.34	0.40	0.39	0.39
Net realized and unrealized gains or losses	(0.09)	0.15	0.29	0.13	(0.17)
Total income from investment operations	0.23	0.49	0.69	0.52	0.22
Less distributions:					
Dividends from net investment income	(0.32)	(0.34)	(0.40)	(0.39)	(0.39)
Net asset value at end of period	10.57	10.66	10.51	10.22	10.09
Total return (%)	2.15	4.66	6.95	5.32	2.16
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.58	0.49	0.49	0.49 ¹	0.49
Gross operating expenses	0.60	0.66	0.67	0.71	0.77
Net investment income	2.96	3.29	3.83	3.91	3.81
Portfolio turnover rate	11	17	30	42	7
Net assets, end of period (\$ x 1,000,000)	174	184	145	124	126

¹ The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had been included.

Schwab California Short/Intermediate Tax-Free Bond Fund

Portfolio Holdings as of August 31, 2003

This section shows all the securities in the fund's portfolio and their market value, as of the report date. We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
- + Credit-enhanced security
- ▶ Liquidity-enhanced security
- Certificate of participation

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation

was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Market Value (\$x1,000)
100.0%	Municipal Bonds	167,171	172,211
0.0%	Other Investment Companies	28	28
100.0%	Total Investments	167,199	172,239

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Municipal Bonds 100.0% of investments

Fixed-Rate Obligations 97.6%

California 93.7%

Alameda County

Refunding & Capital Projects

++ Series 1998A	5.00%	12/01/06	3,480	3,831
++② Series 2001A	5.38%	12/01/09	5,000	5,665

Alameda Public Financing Authority

1997 Revenue Bond Refinancing

Revenue Bonds, Series 1999

4.85% 09/02/06 2,140 2,209

Association of Bay Area Governments

+⑩ *Brandeis Hillel Day School Project*

Revenue Bonds, Series 2001

3.75% 08/01/06 4,000 4,172

+ *FTA Capital Grant*

Bart SFO Extension Bonds, Series 2001A

5.00% 06/15/08 630 631

+ Burbank Unified School District

Election of 1997

General Obligation Bonds, Series C

3.00% 08/01/06 1,820 1,883

California Department of Water Resources

Power Supply Revenue Bonds, Series 2002A

5.50% 05/01/10 1,315 1,436

+ California Educational Facilities Authority

Pooled College & University Projects

Revenue Bonds, Series 1997A

5.05% 04/01/05 1,010 1,068

California Health Facilities Financing Authority

Kaiser Permanente Hospital

Revenue Bonds, Series 1998B

5.00% 10/01/08 2,500 2,702

California Pollution Control Finance Authority

Waste Management, Inc. Project

Solid Waste Disposal Revenue Bonds, Series 2002B

4.45% 07/01/05 2,000 2,033

See financial notes. 35

Schwab California Short/Intermediate Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
California State				
General Obligation Bonds, Series 1992	6.30%	09/01/06	2,235	2,487
+ General Obligation Bonds, Series 1998	5.50%	12/01/11	1,665	1,861
General Obligation Bonds, Series 2001	4.00%	11/01/05	1,000	1,044
General Obligation Bonds, Series 2002	5.25%	02/01/11	3,500	3,739
+ 7 General Obligation Refunding Bonds, Series 2002	5.00%	02/01/12	4,000	4,277
1 Revenue Anticipation Warrants, Series 2003B	2.00%	06/16/04	11,000	11,012
California State Public Works Board				
+ Energy Efficiency Revenue Refunding Bonds, Series 1998B	4.00%	09/01/06	1,155	1,223
<i>The Regents University of California</i> Lease Revenue Refunding Bonds, Series 1998A	5.25%	12/01/07	2,000	2,210
California Statewide Communities Development Authority				
<i>Kaiser Permanente Project</i> Revenue Bonds, Series 2002D	4.35%	03/01/07	2,000	2,073
+ <i>Sherman Oaks Project</i> Revenue Refunding Bonds, Series 1998A	5.00%	08/01/06	2,500	2,720
• <i>St. Joseph Health System</i> Series 1997	5.00%	07/01/04	750	770
• <i>St. Joseph Health System Obligated Group</i> Series 1994	6.50%	07/01/04	2,000	2,130
• <i>The Interxnet Group</i> Series 1999	4.13%	04/01/04	3,500	3,538
+ El Dorado County Public Agency Financing Authority Revenue Bonds, Series 1996	5.60%	02/15/12	3,000	3,280
+ Fontana Community Facilities District No. 2 Senior Special Tax Refunding Bonds, Series 1998A	4.10%	09/01/04	1,120	1,153
Fremont Union High School District <i>Election of 1998</i> General Obligation Bonds, Series 2000B	5.75%	09/01/08	1,520	1,744
+ Fresno <i>Palm Bluffs Corporate Center Public Improvement Project</i> Special Tax Bonds, Series 1998	4.75%	09/01/05	1,000	1,014
+ Inglewood Redevelopment Agency <i>Merged Redeveloped Project</i> Tax Allocation Refunding Bonds, Series 1998A	3.88%	05/01/05	525	547
Intermodal Container Transfer Facility Joint Powers Authority				
+ Refunding Revenue Bonds, Series 1999A	5.00%	11/01/08	1,210	1,347
+ Refunding Revenue Bonds, Series 1999A	5.00%	11/01/09	1,375	1,527
6 Long Beach Harbor Revenue Refunding Bonds, Series 2000A	5.50%	05/15/10	4,000	4,394
+ 8 Long Beach Harbor Facilities Corp. Revenue Refunding Bonds, Series 1998A	5.50%	05/15/05	3,985	4,235
+ Los Angeles <i>American Academy of Dramatic Arts</i> Series 2000A	4.70%	11/01/05	1,300	1,373

Schwab California Short/Intermediate Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
+ Los Angeles Community Redevelopment Agency <i>Beacon Street, Crenshaw & Pico Union 1 Redevelopment Projects</i> Pooled Financing Revenue Refunding Bonds, Series 1998F	5.00%	09/01/07	810	893
Los Angeles County Metropolitan Transportation Authority <i>Proposition C</i> Sales Tax Revenue Bonds, Second Series 1992A	6.20%	07/01/04	3,000	3,122
Los Angeles State Building Authority <i>California Department of General Services</i>				
+ Lease Revenue Refunding Bonds, Series 1993A	5.63%	05/01/11	2,000	2,248
Lease Revenue Refunding Bonds, Series 1995A	5.60%	05/01/04	1,000	1,025
⑤ Los Angeles Unified School District <i>Election of 1997</i> General Obligation Bonds, Series 2000D	5.50%	07/01/10	4,000	4,477
Northern California Power Agency <i>Geothermal Project No. 3</i> Revenue Refunding Bonds, Series 1993A	5.60%	07/01/06	2,000	2,213
Oakland <i>Oakland Museum</i>				
•+ Refunding, Series 2002A	5.00%	04/01/10	2,015	2,201
•+ Refunding, Series 2002A	5.00%	04/01/11	1,460	1,584
+ Oceanside Community Development Commission <i>Vista del Ora Apartments</i> Multi-Family Rental Housing Revenue Refunding Bonds, Series 2001A	4.45%	04/01/11	1,250	1,295
•+ Orange County Recovery, Series 1996A	6.00%	07/01/08	3,000	3,441
+ Port of Oakland Revenue Bonds, Series 2000K	5.50%	11/01/08	3,000	3,351
+ Rancho Water District Financing Authority Refunding Revenue Bonds, Series 1995	5.88%	11/01/10	1,500	1,640
+ Riverside County Asset Leasing Corp. <i>County of Riverside Hospital Project</i> Leasehold Revenue Bonds, Series 2003A	5.00%	06/01/09	2,555	2,806
Sacramento Finance Authority Revenue Refunding Bonds, Series 2002	4.50%	07/01/08	2,865	3,073
+ San Bernardino County <i>Alta Park/Mountain Vista Apartments</i> Multi-Family Housing Refunding Revenue Bonds, Series 2001A	4.45%	05/01/11	1,300	1,338
San Francisco Airports Commission <i>San Francisco International Airport</i>				
+ Second Series Revenue Bonds, Issue 15A	5.50%	05/01/09	2,000	2,213
+ Second Series Revenue Bonds, Issue 22	5.25%	05/01/11	3,065	3,292

See financial notes. 37

Schwab California Short/Intermediate Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
San Francisco Bay Area Transit Financing Authority Bridge Toll Notes, Series 1999	5.00%	02/01/07	500	537
San Francisco State University Foundation, Inc. <i>Auxiliary Organization</i> Student Housing Revenue Bonds, Series 1999	4.30%	07/01/05	540	564
Student Housing Revenue Bonds, Series 1999	5.00%	07/01/08	400	432
+ San Jose Airport Revenue Refunding Bonds, Series 2002B	5.00%	03/01/11	2,625	2,776
+ ④ San Jose Redevelopment Agency <i>Merged Area Redevelopment Project</i> Tax Allocation Bonds, Series 2002	4.00%	08/01/10	5,000	5,177
+ Santa Clara Insurance Funding Bonds, Series 1987	3.25%	04/01/12	4,000	4,110
⑨ Santa Clara County Financing Authority <i>Measure B Transportation Improvement Program</i> Special Obligation Bonds, Series 2003	4.00%	08/01/05	4,000	4,174
+ Multiple Facilities Projects Lease Revenue Bonds, Series 2000B	5.50%	05/15/05	3,290	3,519
+ VMC Facility Replacement Project Lease Revenue Bonds, Series 1994A	7.75%	11/15/10	1,000	1,263
+ Southern California Public Power Authority <i>San Juan Power Project Unit 3</i> Revenue Bonds, Series 1993A	5.00%	01/01/04	1,600	1,621
Vernon <i>Malburg Generating Station Project</i> Electric System Revenue Bonds, Series 2003C	5.00%	04/01/11	1,320	1,355
Electric System Revenue Bonds, Series 2003C	5.25%	04/01/15	1,905	1,936
+ West & Central Basin Financing Authority <i>West Basin Refunding Project</i> Revenue Bonds, Series 1993A	5.30%	08/01/09	3,665	3,744
+ ④ William S. Hart Union High School District <i>School Facility Bridge Funding Program</i> Series 2001	2.40%	01/15/04	4,670	4,671
				161,419
Puerto Rico 3.9%				
+ Puerto Rico Commonwealth Aqueduct & Sewerage Authority Refunding Bonds, Series 1995	6.00%	07/01/06	3,000	3,341
+ Puerto Rico Electric Power Authority Power Revenue Refunding Bonds, Series 1997CC	5.50%	07/01/08	3,000	3,346
				6,687

Schwab California Short/Intermediate Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Variable Rate Obligations 2.4%				
California 2.4%				
+ Irvine Assessment District				
Limited Obligation Improvement Bonds Adjustable Rate Series	0.85%	09/02/03	1,900	1,900
• Orange County Sanitation District				
Refunding, Series 2000B	0.75%	09/02/03	2,205	2,205
				4,105

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Other Investment Companies 0.0% of investments	
Provident Institutional Funds—	
California Money Fund Portfolio 27,716	28

End of portfolio holdings. For totals, please see the first page of holdings for this fund.

Schwab California Short/Intermediate Tax-Free Bond Fund

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value	\$172,239
Receivables:	
Fund shares sold	53
Interest	1,909
Prepaid expenses	<u>2</u>
Total assets	174,203

Liabilities

Payables:		
Fund shares redeemed		52
Dividends to shareholders		458
Investment adviser and administrator fees		4
Transfer agent and shareholder service fees		4
Accrued expenses	+	36
Total liabilities		554

Net Assets

Total assets	174,203
Total liabilities	— 554
Net assets	<u>\$173,649</u>

Net Assets by Source

Capital received from investors	168,813
Net investment income not yet distributed	25
Net realized capital losses	(229)
Net unrealized capital gains	5,040

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$173,649		16,426		\$10.57

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$167,199. Not counting short-term obligations, the fund paid \$34,526 for securities during the reporting period, and received \$18,052 from securities it sold or that matured. Included in the total purchases and sales amounts are \$72,012 in transactions with other SchwabFunds®.

Federal Tax Data

Portfolio cost	\$167,174
Net unrealized gains and losses:	
Gains	\$5,429
Losses	+ (364)
	<u>\$5,065</u>

As of August 31, 2003:

Undistributed earnings:	
Tax-exempt income	\$458
Long-term capital gains	\$-
Capital loss utilized	\$141

Unused capital losses:

Expires 08/31 of:	
2004	\$197
2008	+ 27
	<hr/>
	\$224

Deferred capital losses	\$5
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Schwab California Short/Intermediate Tax-Free Bond Fund

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Investment Income

Interest	\$6,530
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Net Realized Gains and Losses

Net realized gains on investments sold	136
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Net Unrealized Gains and Losses

Net unrealized losses on investments	(1,823)
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Expenses

Investment adviser and administrator fees	553
Transfer agent and shareholder service fees	461
Trustees' fees	9
Custodian and portfolio accounting fees	17
Professional fees	26
Shareholder reports	31
Other expenses	14
Total expenses	1,111
Expense reduction	41
Net expenses	1,070

Increase in Net Assets from Operations

Total investment income	6,530
Net expenses	1,070
Net investment income	5,460
Net realized gains	136
Net unrealized losses	(1,823)
Increase in net assets from operations	\$3,773

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through at least November 15, 2003, to 0.65% of average daily net assets. Prior to November 16, 2002, this limit was 0.49%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$1,687.

Schwab California Short/Intermediate Tax-Free Bond Fund

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$5,460	\$5,161
Net realized gains	136	204
Net unrealized gains or losses	+ (1,823)	2,290
Increase in net assets from operations	3,773	7,655

Distributions Paid

Dividends from net investment income	\$5,495	\$5,077
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Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	6,749	\$72,161	8,549	\$89,804
Shares reinvested	362	3,865	314	3,294
Shares redeemed	+ (7,905)	(84,278)	(5,392)	(56,623)
Net transactions in fund shares	(794)	(\$8,252)	3,471	\$36,475

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	17,220	\$183,623	13,749	\$144,570
Total increase or decrease	+ (794)	(9,974)	3,471	39,053
End of period	16,426	\$173,649	17,220	\$183,623

Unless stated, all numbers are x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$25 and \$60 for the current and prior period, respectively.

Schwab California Long-Term Tax-Free Bond Fund

Financial Statements

Financial Highlights

	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	9/1/99– 8/31/00	9/1/98– 8/31/99
Per-Share Data (\$)					
Net asset value at beginning of period	11.69	11.63	11.06	10.82	11.52
Income from investment operations:					
Net investment income	0.49	0.53	0.55	0.55	0.54
Net realized and unrealized gains or losses	(0.24)	0.05	0.57	0.24	(0.70)
Total income from investment operations	0.25	0.58	1.12	0.79	(0.16)
Less distributions:					
Dividends from net investment income	(0.49)	(0.52)	(0.55)	(0.55)	(0.54)
Net asset value at end of period	11.45	11.69	11.63	11.06	10.82
Total return (%)	2.14	5.14	10.38	7.67	(1.57)
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.58	0.49	0.49	0.49 ¹	0.49
Gross operating expenses	0.60	0.64	0.65	0.69	0.75
Net investment income	4.16	4.58	4.86	5.19	4.69
Portfolio turnover rate	29	34	37	36	55
Net assets, end of period (\$ x 1,000,000)	194	238	215	179	202

¹ The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had been included.

Schwab California Long-Term Tax-Free Bond Fund

Portfolio Holdings as of August 31, 2003

This section shows all the securities in the fund's portfolio and their market value, as of the report date. We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
- + Credit-enhanced security
- Certificate of participation
- ▲ Delayed-delivery security

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation

was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Market Value (\$x1,000)
99.9%	Municipal Bonds	190,482	196,545
0.1%	Other Investment Companies	261	261
100.0%	Total Investments	190,743	196,806

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Municipal Bonds 99.9% of investments

Fixed-Rate Obligations 98.1%

California 98.1%

+ Alameda Corridor Transportation Authority Senior Lien Revenue Bonds, Series 1999A	5.13%	10/01/16	1,170	1,233
+ Alameda County Alameda Medical Center Project Series 1998	5.38%	06/01/18	3,400	3,620
+ ④ Anaheim Public Financing Authority Public Improvements Project Senior Lease Revenue Bonds, Series 1997A	6.00%	09/01/24	5,000	5,695
Association of Bay Area Governments				
+ Brandeis Hillel Day School Project Revenue Bonds Series 2001	3.75%	09/01/03	1,700	1,773
• Lytton Gardens, Inc. Insured Revenue, Series 1999	6.00%	02/15/30	3,000	3,053
+ Redevelopment Agency Pool Tax Allocation Revenue Bonds, Series 1997A-6	5.25%	12/15/17	1,200	1,278
Schools of Sacred Heart - San Francisco Revenue Bonds, Series 2000A	6.45%	06/01/30	1,500	1,538
+ Brea Olinda Unified School District Election of 1999 General Obligation Bonds, Series 1999A	5.60%	08/01/20	1,000	1,079
Burbank Public Finance Authority Golden State Redevelopment Project				
+ Revenue Bonds, Series 2003A	5.25%	12/01/17	2,825	3,016
+ Revenue Bonds, Series 2003A	5.25%	12/01/18	2,175	2,304
California Department of Water Resources Power Supply Revenue Bonds, Series 2002A	5.75%	05/01/17	3,000	3,192

Schwab California Long-Term Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
California Educational Facilities Authority				
College of Arts & Crafts Revenue Bonds, Series 2001	5.75%	06/01/25	1,800	1,776
Pepperdine University Revenue Bonds, Series 2000	5.75%	09/15/30	3,000	3,133
California Health Facilities Financing Authority				
Cedars-Sinai Medical Center Revenue Bonds, Series 1999A	6.13%	12/01/19	2,750	2,915
+⑤ Children's Hospital - San Diego Insured Hospital Revenue Refunding Bonds, Series 1996	5.38%	07/01/16	5,180	5,495
California Housing Finance Agency				
+ Home Mortgage Revenue Bonds, Series 1995L	5.90%	08/01/17	1,000	1,033
+ Home Mortgage Revenue Bonds, Series 1995J	6.00%	08/01/17	110	114
Multi-Unit Rental Housing Revenue Bonds II, Series 1992B	6.70%	08/01/15	1,000	1,011
California Infrastructure & Economic Development Bank				
+① Bay Area Toll Bridges First Lien Revenue Bonds, Series 2003A	5.00%	07/01/29	8,500	8,377
The J. David Gladstone Institution Project Revenue Bonds, Series 2001	5.50%	10/01/19	1,250	1,279
California State				
General Obligation Bonds, Series 2000	5.63%	05/01/18	1,000	1,048
+⑧ Department of Veterans Affairs Home Purchase Revenue Bonds, Series 2002A	5.30%	12/01/21	5,000	5,177
California Statewide Communities Development Authority				
• Cedars-Sinai Medical Center Hospital Revenue, Series 1992	6.50%	08/01/15	365	372
Kaiser Permanente Project Revenue Bonds, Series 2002D	4.35%	03/01/07	2,000	2,073
+ Sunnyside/Vermont Project FHA Insured GNMA Collateralized Revenue Bonds, Series 2001A	7.00%	04/20/36	4,000	4,520
•⑩ The Internext Group Series 1999	5.38%	04/01/17	5,000	4,875
• California Transit Finance Corp. Sacramento Regional Transit District Series 1992A	6.38%	03/01/05	250	256
+ Colton Public Finance Authority Special Tax Revenue Bonds, Series 1996	5.45%	09/01/19	3,020	3,216
▲⑨ Contra Costa County, Public Financing Authority Multiple Project Areas Tax Allocation Revenue Bonds, Series 2003A	5.63%	08/01/33	5,000	4,897
East Bay Municipal Utility District Water System Subordinate Revenue Bonds, Series 1998	5.25%	06/01/19	2,600	2,707
+ Escondido Revenue, Series 2000A	6.00%	09/01/31	2,000	2,200

See financial notes. 45

Schwab California Long-Term Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Fontana Redevelopment Agency <i>Jurupa Hills Redevelopment Project</i> Tax Allocation Refunding Bonds, Series 1997A	5.50%	10/01/19	3,500	3,492
+7 Foothill-Eastern Transportation Corridor Agency Toll Road Revenue Refunding Bonds, Series 1999	5.13%	01/15/19	5,000	5,203
+ Huntington Beach <i>Capital Improvement Financing Project</i> Lease Revenue Bonds, Series 2000A	5.50%	09/01/20	1,500	1,601
+ Inglewood Redevelopment Agency <i>Merged Redevelopment Project</i> Tax Allocation Refunding Bonds, Series 1998A	5.25%	05/01/16	1,000	1,091
+ Los Angeles Municipal Improvement Corp. <i>City of Los Angeles Central Library Project</i> Leasehold Revenue Refunding Bonds, Series 2003A	5.25%	06/01/13	3,730	4,097
+ Lynwood Public Financing Authority <i>Public Capital Improvement Project</i> Lease Revenue Refunding Bonds, Series 2003	5.00%	09/01/18	1,000	1,030
+ Madera Unified School District <i>Election of 2002</i> General Obligation, Series 2003	5.00%	08/01/28	2,980	2,942
+6 Menlo Park Community Development Agency <i>Las Pulgas Community Development Project</i> Tax Allocation Bonds	5.55%	06/01/30	5,000	5,261
+ Modesto Public Financing Authority <i>Capital Improvement & Refinancing Projects</i> Lease Revenue Bonds, Series 1998	5.13%	09/01/20	3,740	3,838
Oakland Joint Power Financing Authority Reassessment Revenue Bonds, Series 1999	5.50%	09/02/24	990	1,002
+ Oakland Redevelopment Agency <i>Central District Redevelopment Project</i> Subordinated Tax Allocation Bonds, Series 2003	5.50%	09/01/14	1,615	1,785
+ Port of Oakland Revenue Bonds, Series 2000K	5.75%	11/01/29	3,500	3,637
Riverside County Public Finance Authority <i>Riverside County Redevelopment Projects</i> Tax Allocation Revenue Bonds, Series 1997A	5.63%	10/01/33	4,905	4,831
Roseville Joint Union High School District General Obligation Bonds, Series 1992E	5.25%	08/01/26	2,435	2,449
Sacramento City Finance Authority + Lease Revenue Refunding Bonds, Series 1993B	5.40%	11/01/20	3,105	3,297
+ California EPA Building Project Lease Revenue Bonds, Series 1998A	5.25%	05/01/19	1,575	1,670
+ City Hall & Redevelopment Projects Revenue Bonds, Series 2002A	5.38%	12/01/20	2,875	3,037
+ Solid Waste & Redevelopment Projects Capital Improvement Revenue Bonds, Series 1999	5.88%	12/01/29	3,000	3,267
Sacramento County Sanitation District Revenue Bonds, Series 2000A	5.88%	12/01/27	1,000	1,097

Schwab California Long-Term Tax-Free Bond Fund

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
+ Salinas Valley Solid Waste Authority Revenue Bonds, Series 2002	5.13%	08/01/22	2,210	2,206
+ San Diego County <i>Election of 1998</i> General Obligation Bonds, Series 2002D	5.25%	07/01/19	3,000	3,156
San Diego Redevelopment Agency <i>Horton Plaza Redevelopment Project</i> Subordinate Tax Allocation Bonds, Series 2000	5.80%	11/01/21	2,500	2,559
San Diego Unified School District <i>Election of 1998</i> + General Obligation Bonds, Series 2001C	5.00%	07/01/18	1,730	1,795
+ General Obligation Bonds, Series 2001C	5.00%	07/01/19	2,000	2,059
San Francisco Airports Commission + <i>San Francisco International Airport</i> Second Series Revenue Bonds, Issue 11	6.20%	05/01/05	2,000	2,177
+ Second Series Revenue Bonds, Issue 12B	5.63%	05/01/21	2,000	2,137
+ Second Series Revenue Bonds, Issue 22	5.00%	05/01/19	2,000	2,020
San Francisco Bay Area Rapid Transit + Sales Tax Revenue Bonds, Series 1999	5.50%	07/01/26	1,000	1,048
+ Sales Tax Revenue Bonds, Series 1999	5.50%	07/01/34	2,500	2,619
San Francisco State University <i>Auxiliary Organization</i> Student Housing Revenue Bonds, Series 1999	5.20%	07/01/19	1,150	1,152
+ San Luis Obispo County Finance Authority <i>Lopez Dam Improvement</i> Revenue Bonds, Series 2000A	5.38%	08/01/24	1,000	1,032
+2 Santa Ana Unified School District <i>Election of 1999</i> General Obligation Bonds, Series 2000	5.70%	08/01/29	6,000	6,271
+ Santa Clara County Financing Authority <i>VMC Facility Replacement Project</i> Lease Revenue Bonds, Series 1994A	7.75%	11/15/10	1,460	1,844
+ Santa Clara Redevelopment Agency <i>Bayshore North Project</i> Tax Allocation Revenue Refunding Bonds	7.00%	07/01/10	1,500	1,750
+ Shasta Union High School District General Obligation Bonds, Series 2002	5.25%	08/01/19	1,360	1,427
+ South Orange County Public Financing Authority Special Tax Revenue Bonds, Series 1999A	5.25%	08/15/18	3,095	3,276
3 Stockton Community Facilities District <i>Mello Roos Community Facilities District No.1 Weston Ranch</i> Special Tax Revenue Bonds, Series 1998A	5.80%	09/01/14	5,875	6,062
+ Taft City Elementary School District <i>Election of 2001</i> General Obligation Bonds, Series 2001A	4.90%	08/01/20	1,080	1,091
+ Tri City Hospital District Insured Revenue Refunding Bonds, Series 1996A	5.63%	02/15/17	1,000	1,077

See financial notes. 47

Schwab California Long-Term Tax-Free Bond Fund

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
+ Truckee Public Financing Authority Lease Revenue Bonds, Series 2000A	5.88%	11/01/25	1,490	1,632
+ University of California <i>UC Davis Medical Center</i> Hospital Revenue Bonds, Series 1996	5.75%	07/01/06	500	561
+ Vallejo <i>Water Improvement Project</i> Revenue Refunding Bonds, Series 1996A	5.70%	05/01/16	2,000	2,181
+ West Basin Water District <i>1992 Projects</i> Revenue Refunding Bonds, Series 1997A	5.50%	08/01/22	1,000	1,059
Whittier <i>Presbyterian Intercommunity Hospital</i> Revenue Bonds, Series 2002	5.60%	06/01/22	2,000	1,981
				193,054

Variable Rate Obligations 1.8%

California 1.8%

Irvine Assessment District				
+ Limited Obligation Improvement Bonds Adjustable Rate Series	0.85%	09/02/03	600	600
+ Northwest Irvine Limited Obligation Improvement Bonds Adjustable Rate Series 1997	0.75%	09/02/03	1,741	1,741
Irvine Ranch Water District				
+ Consolidated Series 1985	0.75%	09/02/03	350	350
+ Election of 1988 Sewer Bonds, Series A	0.85%	09/02/03	800	800
				3,491

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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Other Investment Companies 0.1% of investments

Provident Institutional Funds— California Money Fund Portfolio	260,537	261
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End of portfolio holdings. For totals, please see the first page of holdings for this fund.

Schwab California Long-Term Tax-Free Bond Fund

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value	\$196,806
Receivables:	
Fund shares sold	16
Interest	2,688
Prepaid expenses	+ 3
Total assets	199,513

Liabilities

Payables:	
Fund shares redeemed	218
Dividends to shareholders	781
Investment bought	4,876
Investment adviser and administrator fees	4
Transfer agent and shareholder service fees	4
Accrued expenses	+ 38
Total liabilities	5,921

Net Assets

Total assets	199,513
Total liabilities	- 5,921
Net assets	\$193,592

Net Assets by Source

Capital received from investors	187,470
Net investment income not yet distributed	174
Net realized capital losses	(115)
Net unrealized capital gains	6,063

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$193,592		16,906		\$11.45

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$190,743. Not counting short-term obligations, the fund paid \$60,719 for securities during the reporting period, and received \$86,712 from securities it sold or that matured. Included in the total purchases and sales amounts are \$73,018 in transactions with other SchwabFunds®.

Federal Tax Data

Portfolio cost	\$190,569
Net unrealized gains and losses:	
Gains	\$6,923
Losses	+ (686)
	\$6,237

As of August 31, 2003:

Undistributed earnings:	
Tax-exempt income	\$781
Long-term capital gains	\$—
Capital loss utilized	\$1,073
Unused capital losses:	
Expires 08/31 of:	
2009	\$115
Reclassifications:	
Net investment income not yet distributed	(\$37)
Reclassified as:	
Net realized capital gains	\$37

See financial notes. 49

Schwab California Long-Term Tax-Free Bond Fund

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Investment Income

Interest	\$10,768
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Net Realized Gains and Losses

Net realized gains on investments sold	1,036
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Net Unrealized Gains and Losses

Net unrealized losses on investments	(5,190)
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Expenses

Investment adviser and administrator fees	682
Transfer agent and shareholder service fees	569
Trustees' fees	9
Custodian and portfolio accounting fees	20
Professional fees	27
Shareholder reports	39
Other expenses	+ 15
Total expenses	1,361
Expense reduction	- 48
Net expenses	1,313

Increase in Net Assets from Operations

Total investment income	10,768
Net expenses	- 1,313
Net investment income	9,455
Net realized gains	1,036
Net unrealized losses	+ (5,190)
Increase in net assets from operations	\$5,301

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through November 15, 2002, to 0.49% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

Effective November 16, 2002, this limit no longer applies.

These add up to a net loss on investments of \$4,154.

Schwab California Long-Term Tax-Free Bond Fund

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$9,455	\$10,226
Net realized gains	1,036	1,817
Net unrealized losses	+ (5,190)	(732)
Increase in net assets from operations	5,301	11,311

Distributions Paid

Dividends from net investment income	\$9,540	\$9,995
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Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	3,343	\$39,473	6,013	\$69,034
Shares reinvested	500	5,879	495	5,667
Shares redeemed	+ (7,268)	(85,134)	(4,657)	(53,303)
Net transactions in fund shares	(3,425)	(\$39,782)	1,851	\$21,398

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	20,331	\$237,613	18,480	\$214,899
Total increase or decrease	+ (3,425)	(44,021)	1,851	22,714
End of period	16,906	\$193,592	20,331	\$237,613

Unless stated, all numbers are x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

Figures for shares represent shares sold plus shares reinvested minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$174 and \$296 for the current and prior period, respectively.

Financial Notes

Business Structure of the Funds

Each of the funds discussed in this report is a series of Schwab Investments, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

The funds offer one share class. Shares are bought and sold at net asset value, or NAV, which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trustees may issue as many shares as necessary.

Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

The Trust and Its Funds

This list shows all of the funds included in Schwab Investments. The funds discussed in this report are highlighted.

Schwab Investments organized October 26, 1990

Schwab 1000 Fund®

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund

Schwab Total Bond Market Fund

Schwab GNMA Fund

Schwab Short/Intermediate Tax-Free Bond Fund

Schwab Long-Term Tax-Free Bond Fund

Schwab California Short/Intermediate Tax-Free Bond Fund

Schwab California Long-Term Tax-Free Bond Fund

The funds declare dividends every day they are open for business. These dividends, which are substantially equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

The funds may buy securities on a delayed-delivery basis. In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The funds pay fees to affiliates of the Investment Advisor for various services. Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund's Statement of Operations.

The funds may engage in certain transactions involving affiliates. The funds may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of

the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trusts to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

The funds intend to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the funds distribute substantially all of their net investment income and realized net capital gains (if any) to their respective shareholders each year. As long as a fund meets the tax requirements, it is not required to pay federal income tax.

Under the funds’ organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds. In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds’ maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the

funds. However, based on experience, the funds expect the risk of loss to be remote.

Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

The funds value the securities in their portfolios every business day. The funds use the following policies to value various types of securities:

Bonds and notes: valued at halfway between the most recent bid and asked quotes or, if such quotes are unavailable, at prices for securities of comparable maturity, credit quality and type. Valuations for bonds and notes are provided by an independent bond-pricing service.

Securities for which no quoted value is available, including restricted securities: valued at fair value, as determined in good faith by the fund’s investment adviser using guidelines adopted by the fund’s Board of Trustees.

Short-term securities (60 days or less to maturity): valued at amortized cost.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If a fund bought a debt security at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security’s call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their net assets.

Each fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, each fund also keeps certain assets in segregated accounts, as may be required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Report of Independent Accountants

To the Board of Trustees and Shareholders of:

Schwab Short/Intermediate Tax-Free Bond Fund

Schwab Long-Term Tax-Free Bond Fund

Schwab California Short/Intermediate Tax-Free Bond Fund

Schwab California Long-Term Tax-Free Bond Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Short/Intermediate Tax-Free Bond Fund, Schwab Long-Term Tax-Free Bond Fund, Schwab California Short/Intermediate Tax-Free Bond Fund, and Schwab California Long-Term Tax-Free Bond Fund (four of the portfolios constituting Schwab Investments, hereafter referred to as the “Funds”) at August 31, 2003, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, CA

October 10, 2003

Schwab Tax-Free Bond Funds

Fund Trustees unaudited

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an "interested person," meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as "interested trustees." The "independent trustees" are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the SchwabFunds (of which there were 49 as of 8/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03</i> : Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03</i> : Co-Chair, The Charles Schwab Corporation. <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01</i> : Director, The Charles Schwab Trust Company. <i>Until 1/99</i> : Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

¹ The SchwabFunds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

Schwab Tax-Free Bond Funds

Individuals Who Are Interested Trustees but Not Officers of the Trust

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Dawn G. Lepore ¹ 3/21/54	Trustee:2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
Jeffrey M. Lyons ¹ 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

Individuals Who Are Officers of the Trust but Not Trustees

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
Tai-Chin Tung 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

¹ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

Schwab Tax-Free Bond Funds

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Solectron Corp. (manufacturing), Tenera, Inc. (services and software), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Networks (telecommunications); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2002</i> : Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset allocation The practice of dividing a portfolio among different asset classes, with each asset class assigned a particular percentage.

asset-backed security A bond or other debt security that represents ownership in a pool of debt obligations such as credit card debt.

asset class A group of securities with similar structure and basic characteristics. Stocks, bonds and cash are the three main examples of asset classes.

average rate The average rate of interest paid annually by the fixed-income securities in a fund or portfolio.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the "coupon rate") until a specified date (the "maturity date"), at which time the issuer returns the money borrowed ("principal" or "face value") to the bondholder. Because of their structure, bonds are sometimes called "fixed-income securities" or "debt securities."

call An early repayment of a bond's principal by the issuer, usually done because the issuer is able to refinance its bond debt at a lower rate.

call protection A term used in reference to a bond that cannot be called by the issuer before maturity, or at least for many years from the present date. A bond that offers call protection can more reliably be expected to provide a given yield over a given number of years than a bond that could be called (assuming both bonds are of the same credit quality).

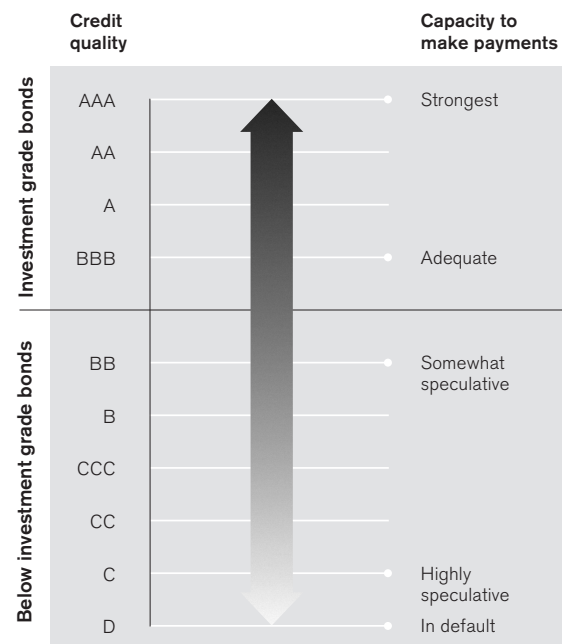
capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

certificate of participation A municipal bond that is repaid from an annual budget appropriation rather than being backed by the full faith and credit of the issuer.

coupon, coupon rate The annual rate of interest paid until maturity by the issuer of a debt security.

Credit Ratings

Most major bond issuers arrange with a recognized independent rating organization, such as Standard & Poor's (S&P) or Moody's Investors Service, to rate the credit-worthiness of their bonds. The spectrum of these ratings is divided into two major categories: investment grade and below investment grade (sometimes called "junk bonds"). Bonds rated below investment grade range from those that are considered to have some vulnerability to default to those that appear on the brink of default or are in default.



Schwab Tax-Free Bond Funds

credit quality The capacity of an issuer to make its interest and principal payments. See chart on prior page.

credit risk The risk that a bond issuer may be unable to pay interest or principal to its bondholders.

discount rate The implied rate on a debt security that does not pay interest but is bought at a discount and redeemed at face value when it matures.

dividend Money from earnings that is distributed to shareholders as a given amount per share.

duration A measure of a bond investment's sensitivity to interest rates. Calculations of duration take into account the investment's yield, interest payments, maturity date and call features. Like maturity, duration is expressed in years, but is more accurate than maturity in determining the effect of interest rate movements on a bond investment's price.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

general obligation bond A municipal bond that is secured by the issuer's full faith and credit, which typically is backed by the power of the issuer to levy taxes.

interest Payments to bondholders (usually made twice a year) as compensation for loaning the bond principal to the issuer.

interest rate risk The risk that a bond's value will fluctuate if market interest rates change or are expected to change. Bond prices tend to move in the opposite direction of interest rates: when interest rates rise, bond prices tend to fall.

market risk Those elements of risk that are common to all securities in an asset class, and therefore cannot be significantly reduced by diversification within the asset class. Also known as "systematic risk."

maturity The date a bond is scheduled to be "retired" and its principal amount returned to the bondholder.

mortgage-backed security A bond or other debt security that represents ownership in a pool of mortgage loans.

muni, municipal bond, municipal security Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construc-

tion of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

prepayment risk The risk that a mortgage-backed security may be paid off early, typically because interest rates have fallen and the homeowners who hold the underlying mortgages have refinanced those mortgages at lower rates. In this type of situation, the investor who held the mortgage-backed security will usually have to settle for a lower rate when reinvesting the principal.

revenue bond A municipal bond that is issued to finance public works projects and is secured by revenue generated by the project (such as water and sewer fees) rather than the full faith and credit of the issuer.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

weighted average For mutual funds, an average that gives the same weight to each security as the security represents in the fund's portfolio.

weighted average maturity For mutual funds, the maturity of all the bonds in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

yield to maturity The annualized rate of return a bondholder could expect if the bond were held to maturity. In addition to interest payments, yield to maturity also factors in any difference between a bond's current price and its principal amount, or face value.

Contact Schwab

SchwabFunds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies.

Actively managed funds include multi-manager stock funds, a fund that uses long-short strategies, and a range of taxable and tax-free bond funds. Index funds include large-cap, small-cap and international stock funds. The list at right shows all currently available SchwabFunds.

Whether you're an experienced investor or just starting out, SchwabFunds can help you achieve your financial goals. Please call 1-800-435-4000 for a free prospectus and brochure for any SchwabFund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to SchwabFunds at:

P.O. Box 3812

Englewood, CO 80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

The SchwabFunds Family®

Stock Funds

Schwab S&P 500 Fund

Schwab 1000 Fund®

Schwab Small-Cap Index Fund®

Schwab Total Stock Market Index Fund®

Schwab International Index Fund®

Schwab Core Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Schwab Dividend Equity Fund™

Schwab Focus Funds

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

Schwab MarketMasters Funds™

Schwab U.S. MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

Asset Allocation Funds

Schwab MarketTrack Portfolios®

Schwab All Equity Portfolio

Schwab Growth Portfolio

Schwab Balanced Portfolio

Schwab Conservative Portfolio

Bond Funds

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund™

Schwab Total Bond Market Fund™

Schwab GNMA Fund™

Schwab Short/Intermediate Tax-Free Bond Fund™

Schwab Long-Term Tax-Free Bond Fund™

Schwab California Short/Intermediate
Tax-Free Bond Fund™

Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your Schwab account to "sweep" cash balances automatically when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.



Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

SchwabFunds®
P.O. Box 3812, Englewood, CO 80155-3812

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REG13656-05

Schwab Bond Funds

Annual Report

August 31, 2003

Schwab YieldPlus Fund®

Schwab Short-Term
Bond Market Fund™

Schwab Total
Bond Market Fund™

Schwab GNMA Fund™

charles SCHWAB

Four smart, cost-effective ways investors can use bonds in an asset allocation strategy.

In this report

Management's Discussion 2

The president of SchwabFunds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

Performance at a Glance 5

Schwab YieldPlus Fund®

Investor Shares: **SWYPX** Select Shares®: **SWYSX**

The fund seeks high current income with minimal changes in share price.

Performance and Fund Facts 7

Financial Statements 17

Schwab Short-Term Bond Market Fund™

Ticker Symbol: **SWBDX**

The fund seeks current income by tracking the performance of the Lehman Brothers Mutual Fund Short (1-5 Year) U.S. Government/Credit Index.

Performance and Fund Facts 10

Financial Statements 30

Schwab Total Bond Market Fund™

Ticker symbol: **SWLBX**

The fund seeks current income by tracking the performance of the Lehman Brothers U.S. Aggregate Bond Index.

Performance and Fund Facts 12

Financial Statements 39

Schwab GNMA Fund™

Investor Shares: **SWGIX** Select Shares®: **SWG SX**

The fund seeks high current income consistent with preservation of capital.

Performance and Fund Facts 14

Financial Statements 51

Financial notes 58

Fund Trustees 63

Glossary 66

Fund manager: Charles Schwab Investment Management, Inc. Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

From the Chairman



Charles R. Schwab
Chairman

With the stock market showing signs of life, and many expecting bond prices to decline, many investors are wondering whether this is a good time to own bonds. As someone who has faith in the long-term potential of stocks, I certainly understand where this question is coming from. However, the truth is that owning stocks and owning bonds is not an either/or proposition. A well-balanced portfolio contains both.

Perhaps the most important reason to own bonds is to help protect you against the things you can't predict. In 2000, how many U.S. investors expected a three-year stock market downturn? I doubt that in 1990 many people in Japan expected a 12-year downturn, either. Yet both happened. Similarly, we were all caught off-guard by the terrible events of 9/11. In the wake of this tragedy, investors clamored for Treasury securities, bidding up their prices while stocks stumbled.

Can you lose money investing in bond funds? Absolutely. When bond yields increase, prices decline. But the point of owning a diversified portfolio is that it is nearly impossible to successfully time the market. That's why at Schwab we have long advocated a disciplined approach towards asset allocation.

If you have any questions about the allocation of your portfolio, or whether owning bond funds makes sense in your portfolio, I hope you will feel free to draw on the expertise of our professionals. That's why they're there: to help you find answers.

Thank you for your continued trust in SchwabFunds®.

Sincerely,

A handwritten signature in black ink that reads "Charles Schwab". The signature is written in a cursive, flowing style.

Management's Discussion for the year ended August 31, 2003



Randall W. Merk is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The second half of the report period saw what could be a turning point in the bond markets. After a long decline to historically low levels, interest rates rebounded sharply in June of 2003, which meant lower share prices for many bond funds. On the next few pages we discuss some of the factors that, in our view, contributed to this trend, and what it meant for the funds covered in this report.

With their regular income and historically lower volatility (compared with stocks), bonds do have the potential to help cushion a portfolio against the effects of stock market volatility. It appears unlikely that bonds will continue to post the significant total returns we've seen in recent years. However, the basic reasons for keeping bond investments in a portfolio—income and lower volatility—are always worth remembering. I believe these reasons are as valid today as they have been in the past.

Before closing, I want to say a few words about an issue that has been in the headlines recently: mutual fund integrity. Along with management expertise and customer service, integrity is a key element of what we have to offer. All of us at SchwabFunds® strive to maintain high standards in our operations. Nevertheless, we continue to scrutinize our operations. We believe that treating all shareholders equally is a basic principle of a mutual fund, and it's a principle we at SchwabFunds take very seriously.

Nothing means more to our business than the trust of our shareholders. We don't take that trust for granted. I want to thank you for investing with us, and I hope you'll let us know if there is anything else we can do to help you reach your financial goals.

Sincerely,

A handwritten signature in black ink that reads "Randall W. Merk". The signature is written in a cursive, flowing style.

Past performance does not indicate future results.



Kim Daifotis, CFA, a vice president and senior portfolio manager of the investment adviser, has overall responsibility for management of the funds. He joined the firm in 1997, and has worked in fixed-income asset management and research since 1982.

Michael Shearer, PhD, a vice-president and senior portfolio manager, has day-to-day responsibility for management of the funds. Prior to joining the firm in February 2003, he worked for more than 10 years in the financial industry as a portfolio manager and quantitative analyst/strategist.

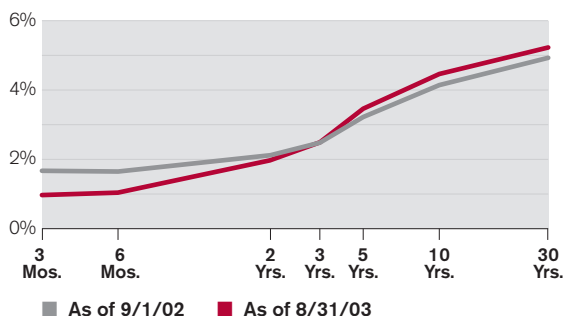
The Economy and the Market

Economic uncertainty gradually gave way to more encouraging economic signs toward the end of the report period. The beginning of the report period saw the U.S. economy behaving more or less as it had since late 2001, with no clear signs of either significant growth or contraction. In March 2003, not long after the conclusion of major hostilities in Iraq, stock prices began to rise, and by the end of the report period, it appeared that the economy was finally beginning to gather strength.

The Federal Reserve (the Fed) cut short-term interest rates twice during the period. The two cuts—0.50% in November 2002 and 0.25% in June 2003—brought the Fed funds target rate to an historic low of 1.00%. The cuts reflected the Fed's concerns that an economic recovery was not materializing as rapidly as one might have hoped and deflation remained a risk.

The bond market reacted dramatically to the Fed's June 2003 rate cut. Yields of benchmark 10-year Treasury bonds, which had been drifting downward since before the beginning of the report period, suddenly skyrocketed (chart, page 4). In keeping with their inverse relationship to yields, market prices of these bonds began the period drifting upward, then plummeted after the June cut.

Yield Curve: Average Yields of AAA Securities of Seven Maturities



The yield curve grew steeper during the report period as rates at the short-maturity end of the scale continued to fall, pushed down by the Federal Reserve's two rate cuts, while rates for longer maturity bonds rose.

This chart shows where yields stood at the beginning of the report period and at the end of the period. For debt securities of comparable quality, those with longer maturities typically pay higher interest rates, in part because they are presumed to carry higher risk.

Data source: Bloomberg L.P.

Rising interest rates and growing signs of economic improvement contributed to a decline in bond prices toward the end of the report period.

Why did this particular rate cut—which, after all, was the 13th made by the Fed since January of 2001—have such a significant effect on bond markets? We believe the answer is twofold. First, the bond market seemed to be expecting a cut of half a percent. By lowering the Fed funds rate by only a quarter of a percent, the Fed was seen as signaling that its outlook for the economy was positive.

Second, prior to the cut, many investors appeared to believe the Fed was prepared to resort to unconventional easing methods, since short-term rates could not be cut much further. In particular, the Fed had indicated that it might begin to purchase longer-term Treasury bonds, which would raise their value and therefore lower yields. When, at the time of the June 2003 rate cut, the Fed also stated that it was no longer considering unconventional easing, the price of longer Treasuries, which had risen in anticipation of Fed purchases, fell back again.

The yield spreads between Treasuries and all grades of corporates narrowed dramatically. From early within the report period almost until the end, the difference between yields offered by corporate bonds and those offered by benchmark 10-year Treasury bonds narrowed. It was the fastest and largest decline in at least 14 years.

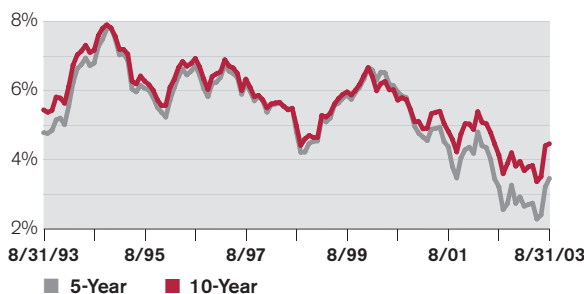
It is our belief that this decline reflected a growing perception on the part of bond investors that most corporations that had survived the difficulties of the past few years were not likely to suffer significant financial

Yields of U.S. Treasury Securities: Effective Yields of Five- and Ten-Year Treasuries

Yields reached their lowest levels in many years. The graph illustrates the jump in rates following the Fed's actions in June 2003.

Yields, or interest rates, represent the cost of borrowing money. Rapid economic growth, waning investor interest in bonds, an increase in the issuance of bonds, or the expectation of higher inflation can drive rates up, while the opposite conditions can push rates down.

Data source: Bloomberg L.P.



Performance at a Glance

Total return for the 12 months ended 8/31/03

Schwab YieldPlus Fund®

Investor Shares	2.95%
Select Shares®	3.10%
Index	1.85%
Category Average¹	2.08%

Performance Details pages 7-8

Schwab Short-Term

Bond Market Fund™	4.16%
Index	4.34%

Performance Details page 10

Schwab Total Bond

Market Fund™	4.37%
Index	4.35%

Performance Details page 12

Schwab GNMA Fund™

Since fund inception: 3/3/03

Investor Shares	-1.11%
Select Shares	-1.11%
Index	-0.40%
Category Average²	n/a

Performance Details pages 14-15

setbacks going forward. The difference in risk between Treasuries (which are essentially considered risk-free) and corporate bonds was therefore perceived to be substantially less than it had been for the past several years.

Most sectors of the bond market posted positive total returns for the report period, but lagged well behind the robust returns posted by most types of stocks. In general, corporate bonds were the stand-out story in terms of bond total return during the period. Muni bonds also performed well.

The Funds

As the figures at left show, during the report period both **Schwab Short-Term Bond Market Fund** and **Schwab Total Bond Market Fund** posted net gains and closely tracked their respective benchmark indices.

During the first half of the report period, we took steps to increase diversification. Both funds now hold more issues in their portfolios and have smaller positions in most issues. We also have continued to be slightly overweighted in bonds from industrial issuers and slightly underweighted in bonds from utilities issuers, compared to the benchmarks. We used this strategy throughout most of the report period.

During the report period and previously, we maintained substantial holdings in corporate bonds, believing these bonds to be undervalued. The resurgence of this category during the period made a significant positive contribution to the performance of the non-municipal funds.

Because of the steepening yield curve (chart, page 3), which was largely a function of increasing yields (and decreasing prices) for intermediate-term bonds, price appreciation did not play a role in the total return for the period for the Schwab Short-Term Bond Market Fund or the Schwab Total Bond Market Fund. It was yield, rather than price appreciation, that was responsible for most of the funds' total return.

All fund and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Each fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. Past performance does not indicate future results.

Expenses may be partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

¹ Source for category information: Morningstar, Inc. As of 8/31/03, there were 78 funds in the Ultrashort Bond Fund category for the one-year period and 65 for the three-year period.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 358 funds in the Intermediate Government Fund category that had track records of at least six months.

As of the end of the report period, all funds in this report were positioned to take advantage of a modest economic recovery and to weather a degree of volatility.

Schwab YieldPlus Fund® had positive returns, and substantially outperformed its benchmark. Rising prices at the short end of the yield curve were naturally a significant part of the story for this fund. The fund invested heavily in corporate bonds and thus benefited from their improved valuations. We also increased the fund's weightings of asset-backed securities, particularly during the second half of the period, because our analysis showed that they were attractively valued relative to other types of bonds.

With mortgage rates hitting historic lows during June 2003, then rebounding, the period since the inception of **Schwab GNMA Fund™** on March 3, 2003 was a volatile one for the fund. The fund ended the report period with a negative total return, most of it due to the about-face of mortgage security prices that occurred right after the Fed's rate cut in June of 2003. Yield spreads between GNMA securities and Treasuries narrowed over most of the period, but then widened again, which hurt fund performance.

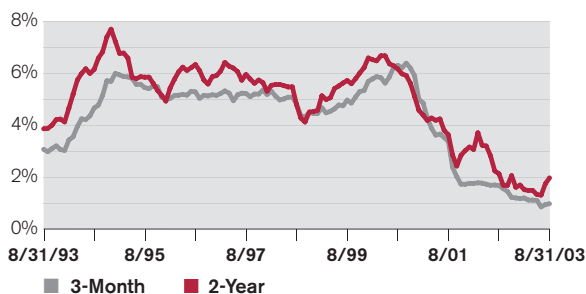
The views expressed here are those of fund management as of the report date and may change subsequent to that date.

Yields of U.S. Treasury Securities: Effective Yields of Three-Month and Two-Year Treasuries

Short-term yields reached levels not seen in over 40 years, as investors sought a safe haven and the Federal Reserve cut short-term rates to 1.00%.

Yields, or interest rates, represent the cost of borrowing money. Rapid economic growth, waning investor interest in bonds, an increase in the issuance of bonds, or the expectation of higher inflation can drive rates up, while the opposite conditions can push rates down.

Data source: Bloomberg L.P.



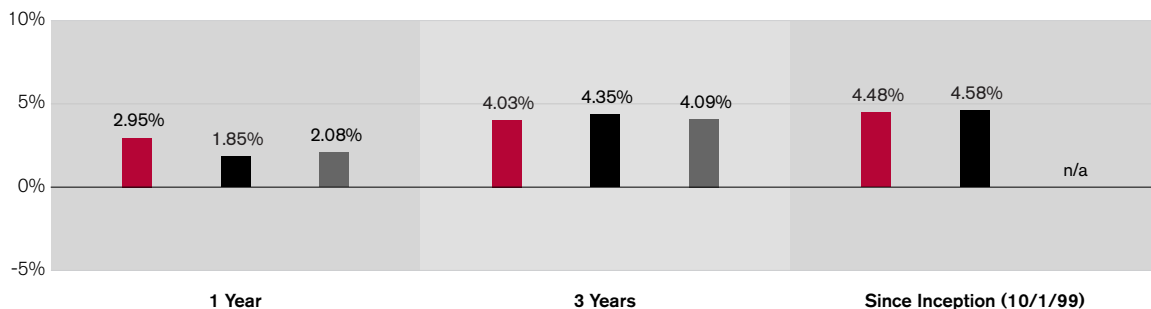
Schwab YieldPlus Fund®

Investor Shares Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

This bar chart compares performance of the fund's Investor Shares with the Lehman Brothers U.S. Short Treasury: 9-12 Months Index and the Morningstar Ultrashort Bond Fund category.

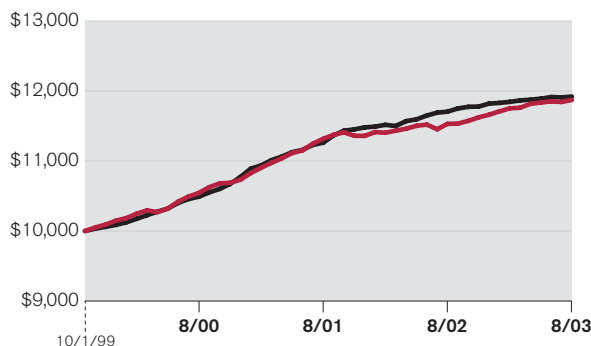
■ **Investor Shares**
 ■ **Lehman Brothers U.S. Short Treasury: 9-12 Months Index**
 ■ **Category Average**



Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund's Investor Shares compared with a similar investment in the Lehman Brothers U.S. Short Treasury: 9-12 Months Index.

■ \$11,872 **Investor Shares**
 ■ \$11,921 **Lehman Brothers U.S. Short Treasury: 9-12 Months Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. Past performance does not indicate future results.

¹ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

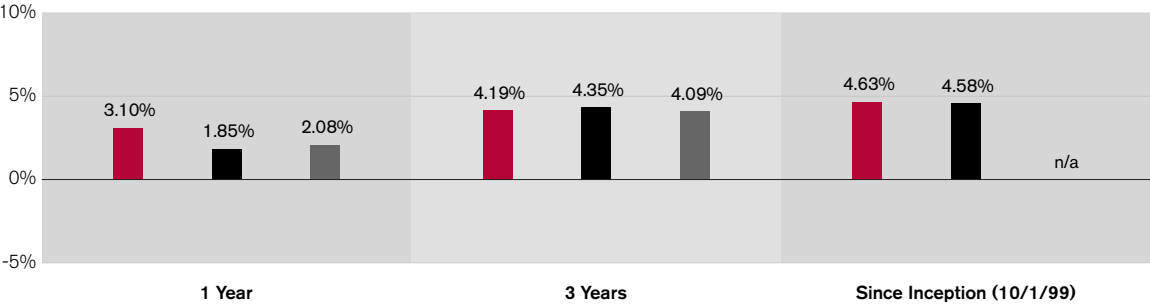
² Source for category information: Morningstar, Inc. As of 8/31/03, there were 78 funds in the Ultrashort Bond Fund category for the one-year period and 65 for the three-year period.

Select Shares® Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

This bar chart compares performance of the fund's Select Shares with the Lehman Brothers U.S. Short Treasury: 9–12 Months Index and the Morningstar Ultrashort Bond Fund category.

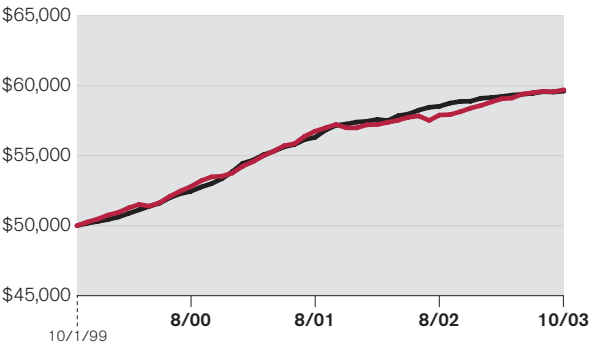
- Select Shares
- Lehman Brothers U.S. Short Treasury: 9–12 Months Index
- Category Average



Performance of a Hypothetical \$50,000 Investment¹

This graph shows performance since inception of a hypothetical \$50,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in the Lehman Brothers U.S. Short Treasury: 9–12 Months Index.

- \$59,710 Select Shares
- \$59,605 Lehman Brothers U.S. Short Treasury: 9–12 Months Index



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¹ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 78 funds in the Ultrashort Bond Fund category for the one-year period and 65 for the three-year period.

Fund Facts as of 8/31/03

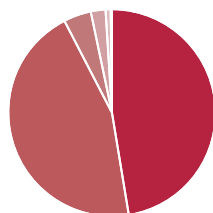
Statistics

Number of Holdings	250	Weighted Average Maturity	1.1 yrs
Fund Category¹		Weighted Average Duration	0.3 yrs
Interest Rate Sensitivity	Short	Weighted Average Credit Quality	A
Credit Quality	Medium	Portfolio Turnover Rate	109%
30-Day SEC Yield²			
Investor Shares	2.44%		
Select Shares®	2.59%		
12-Month Yield²			
Investor Shares	3.46%		
Select Shares	3.60%		

Portfolio Composition

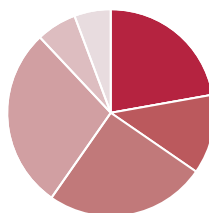
These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity. All figures are shown as a percentage of the fund's investments. Holdings may have changed since the report date.

By Security Type



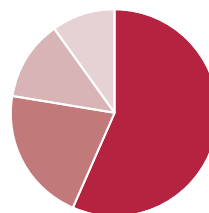
- 47.4% **Corporate Bonds**
- 45.0% **Collateralized Mortgage Obligations & Asset-Backed Obligations**
- 4.3% **Commercial Paper & Other Corporate Obligations**
- 2.3% **Preferred Stock**
- 0.8% **Municipal Bonds**
- 0.2% **U.S. Government Securities**

By Credit Quality³



- 22.2% **AAA**
- 12.4% **AA**
- 25.1% **A**
- 28.3% **BBB**
- 6.3% **BB**
- 5.7% **Short-Term Ratings or Unrated Securities**

By Maturity



- 56.6% **0-6 Months**
- 21.0% **7-18 Months**
- 12.5% **19-30 Months**
- 9.9% **More than 30 Months**

¹ Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

² The yields do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

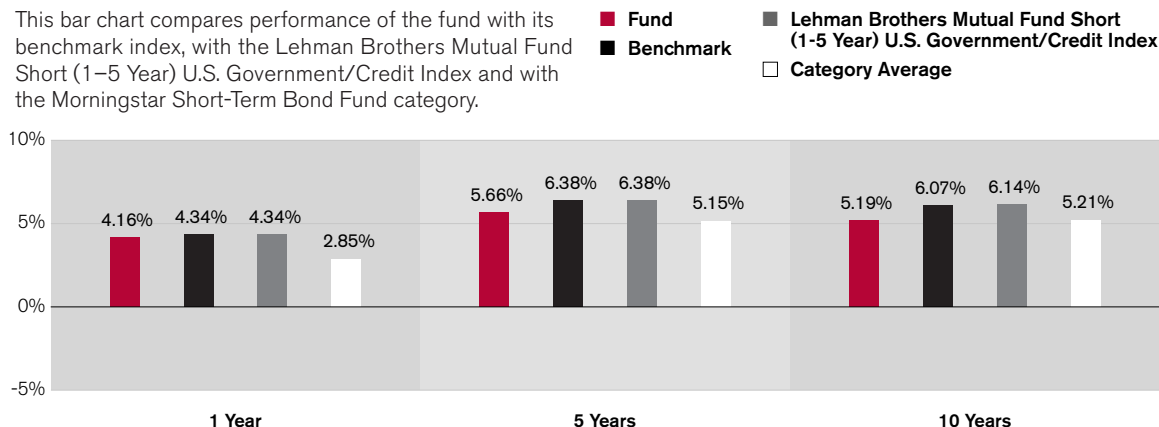
³ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab Short-Term Bond Market Fund™

Performance as of 8/31/03

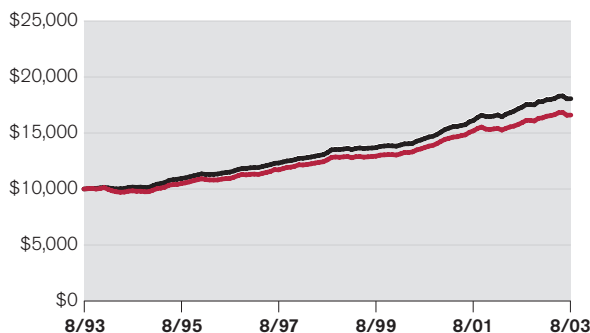
Average Annual Total Returns^{1, 2}

This bar chart compares performance of the fund with its benchmark index, with the Lehman Brothers Mutual Fund Short (1–5 Year) U.S. Government/Credit Index and with the Morningstar Short-Term Bond Fund category.



Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in two indices: the fund's benchmark index and the Lehman Brothers Mutual Fund Short (1–5 Year) U.S. Government/Credit Index.



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. Past performance does not indicate future results.

¹ The fund changed its benchmark on 2/28/98, when it changed from being a government bond fund to its current strategy. Benchmark performance shown here is the Lehman Brothers Short (1–3 Year) U.S. Government Bond Index from fund inception through 2/28/98 and the Lehman Brothers Mutual Fund Short (1–5 Year) U.S. Government/Credit Index from 3/1/98 through the end of the report period. Benchmark performance for the one-year period is the Lehman Brothers Mutual Fund Short (1–5 Year) U.S. Government/Credit Index. Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 253 funds in the Short-Term Bond Fund category for the one-year period, 168 for the five-year period and 76 for the ten-year period.

Fund Facts as of 8/31/03

Statistics

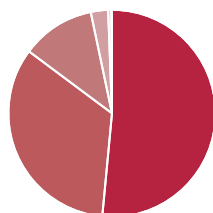
	Fund	Index ¹
Number of Holdings	119	2,245
Fund Category²		
Interest Rate Sensitivity	Short	—
Credit Quality	High	—
30-Day SEC Yield³	2.90%	—
Yield to Maturity	3.16%	2.73%

	Fund	Index ¹
Weighted Average Maturity	2.4 yrs	2.7 yrs
Weighted Average Duration	2.4 yrs	2.5 yrs
Weighted Average Credit Quality	AA	AA
Portfolio Turnover Rate	124%	—

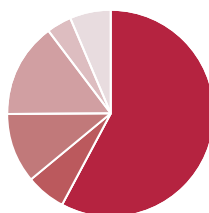
Portfolio Composition

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity. All figures are shown as a percentage of the fund's investments. Holdings may have changed since the report date.

By Security Type

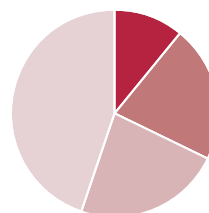


- 51.5% **U.S. Government Securities**
- 33.7% **Corporate Bonds**
- 11.5% **Collateralized Mortgage Obligations & Asset-Backed Obligations**
- 2.7% **Commercial Paper & Other Corporate Obligations**
- 0.5% **Municipal Bonds**
- 0.1% **Other Investment Companies**

By Credit Quality⁴

- 57.8% **AAA**
- 6.2% **AA**
- 10.9% **A**
- 14.8% **BBB**
- 3.9% **BB**
- 6.4% **Short-Term Ratings or Unrated Securities**

By Maturity



- 10.9% **0-6 Months**
- 21.3% **7-18 Months**
- 23.0% **19-30 Months**
- 44.8% **More than 30 Months**

¹ The Lehman Brothers Mutual Fund Short (1–5 Year) U.S. Government/Credit Index.

² Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

³ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's 30-day SEC yield would have been 2.77%. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

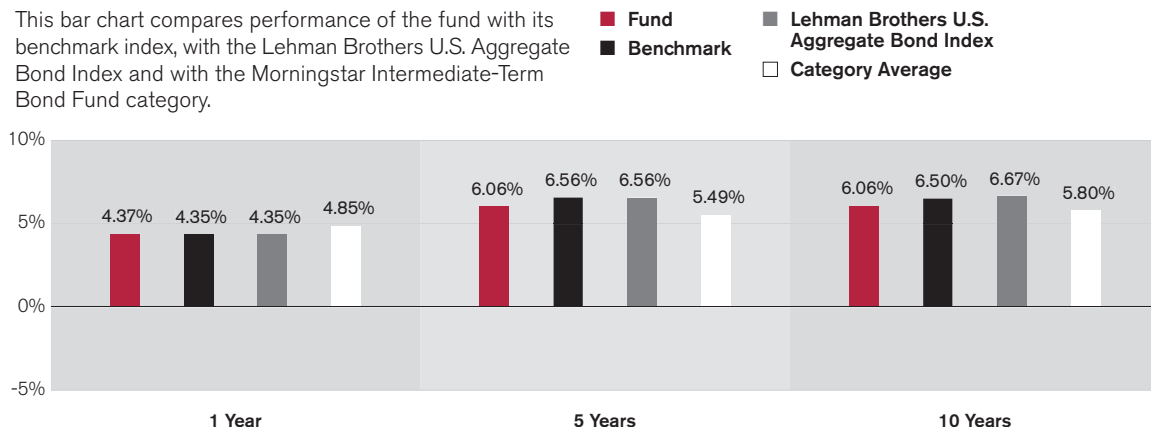
⁴ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab Total Bond Market Fund™

Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

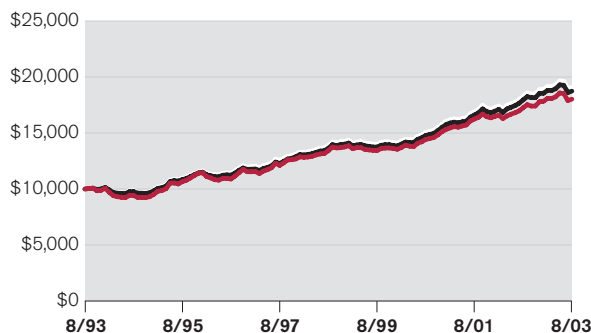
This bar chart compares performance of the fund with its benchmark index, with the Lehman Brothers U.S. Aggregate Bond Index and with the Morningstar Intermediate-Term Bond Fund category.



Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund, compared with a similar investment in two indices: the fund's benchmark index and the Lehman Brothers U.S. Aggregate Bond Market Index.

■ \$18,022 **Fund**
■ \$18,737 **Benchmark**
■ \$19,071 **Lehman Brothers U.S. Aggregate Bond Index**



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¹ The fund changed its benchmark on 2/28/98, when it changed from being a government bond fund to its current strategy. Benchmark performance shown here is the Lehman Brothers General U.S. Government Bond Index from fund inception through 2/28/98 and the Lehman Brothers U.S. Aggregate Bond Index from 3/1/98 through the end of the report period. Benchmark performance for the one-year period is the Lehman U.S. Aggregate Bond Index. Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

² Source for category information: Morningstar, Inc. As of 8/31/03, there were 794 funds in the Intermediate-Term Bond Fund category for the one-year period, 487 for the five-year period and 207 for the ten-year period.

Fund Facts as of 8/31/03

Statistics

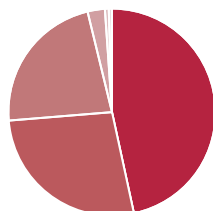
	Fund	Index ¹
Number of Holdings	257	7,483
Fund Category²		
Interest Rate Sensitivity	Medium	—
Credit Quality	High	—
30-Day SEC Yield³	3.04%	—
Yield to Maturity	4.79%	4.53%

	Fund	Index ¹
Weighted Average Maturity	5.1 yrs	7.6 yrs
Weighted Average Duration	4.6 yrs	4.6 yrs
Weighted Average Credit Quality	AA	AA
Portfolio Turnover Rate	121%	—

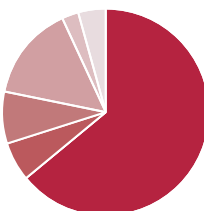
Portfolio Composition

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity. All figures are shown as a percentage of the fund's investments. Holdings may have changed since the report date.

By Security Type

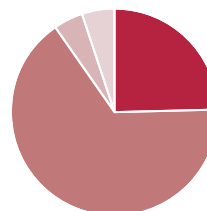


46.6%	Collateralized Mortgage Obligations & Asset-Backed Obligations
27.1%	Corporate Bonds
22.5%	U.S. Government Securities
2.7%	Commercial Paper & Other Corporate Obligations
0.6%	Municipal Bonds
0.5%	Preferred Stock

By Credit Quality⁴

64.0%	AAA
6.1%	AA
8.1%	A
14.9%	BBB
2.6%	BB
4.3%	Short-Term Ratings or Unrated Securities

By Maturity



24.6%	0-1 Year
65.7%	2-10 Years
4.6%	11-20 Years
5.1%	21-30 Years

¹ The Lehman Brothers U.S. Aggregate Bond Index.

² Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

³ Fund expenses have been partially absorbed by fund management. Without these reductions, the fund's 30-day SEC yield would have been 2.94%. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

⁴ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

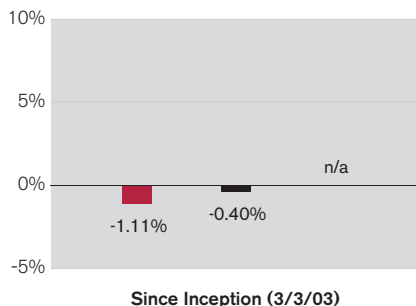
Schwab GNMA Fund™

Investor Shares Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

This bar chart compares performance of the fund's Investor Shares with the Lehman Brothers GNMA Index and the Morningstar Intermediate Government Fund category.

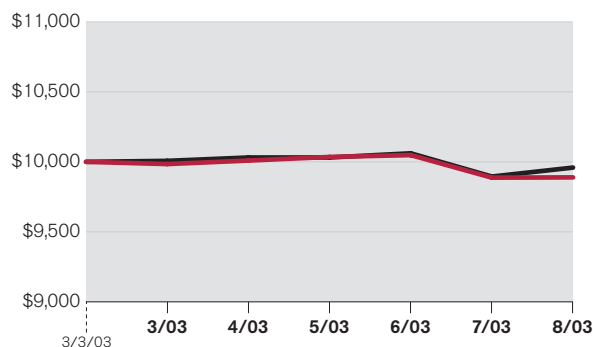
■ **Investor Shares**
 ■ **Lehman Brothers GNMA Index**
 ■ **Category Average**



Performance of a Hypothetical \$10,000 Investment¹

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund's Investor Shares compared with a similar investment in the Lehman Brothers GNMA Index.

■ \$9,889 **Investor Shares**
 ■ \$9,959 **Lehman Brothers GNMA Index**



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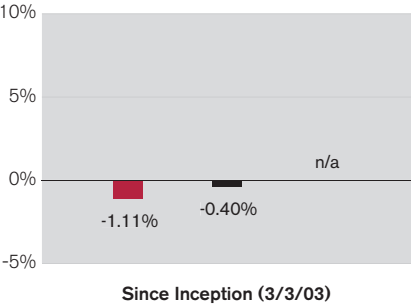
² Source for category information: Morningstar, Inc. As of 8/31/03, there were 358 funds in the Intermediate Government Fund category that had track records of at least six months.

Select Shares® Performance as of 8/31/03

Average Annual Total Returns^{1, 2}

This bar chart compares performance of the fund's Investor Shares with the Lehman Brothers GNMA Index and the Morningstar Intermediate Government Fund category.

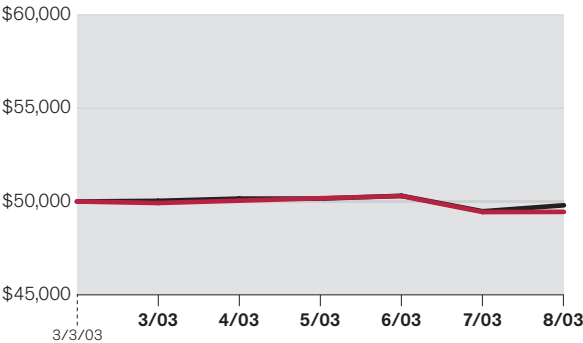
- Select Shares
- Lehman Brothers GNMA Index
- Category Average



Performance of a Hypothetical \$50,000 Investment¹

This graph shows performance since inception of a hypothetical \$50,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in the Lehman GNMA Index.

- \$49,445 Select Shares
- \$49,797 Lehman Brothers GNMA Index



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² Source for category information: Morningstar, Inc. As of 8/31/03, there were 358 funds in the Intermediate Government Fund category that had track records of at least six months.

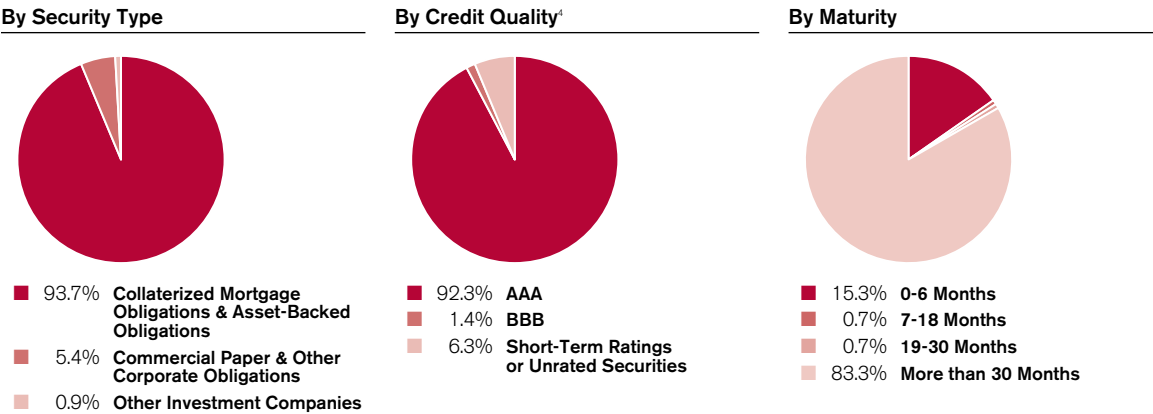
Fund Facts as of 8/31/03

Statistics

	Fund	Index ¹		Fund	Index ¹
Number of Holdings	66	164	Weighted Average Maturity	4.1 yrs	6.9 yrs
Fund Category ²			Weighted Average Duration	2.8 yrs	2.9 yrs
Interest Rate Sensitivity	Short	—	Weighted Average Credit Quality	AAA	AAA
Credit Quality	High	—	Portfolio Turnover Rate	105%	—
30-Day SEC Yield ³					
Investor Shares	0.88%	—			
Select Shares®	0.88%	—			
Yield to Maturity					
Investor Shares	5.24%	5.51%			
Select Shares	5.24%	5.51%			

Portfolio Composition

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity. All figures are shown as a percentage of the fund's investments. Holdings may have changed since the report date.



¹ The Lehman Brothers GNMA Index.

² Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present or future. Definitions of fund categories: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

³ Fund expenses have been absorbed by fund management. Without these reductions, the fund's 30-day SEC yield for Investor Shares and Select Shares would have been -0.20% and -0.05%, respectively. The yields do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

⁴ Based on ratings by Standard & Poor's and Moody's. Where ratings are different, the chart uses the higher rating.

Schwab YieldPlus Fund®

Financial Statements

Financial Highlights

Investor Shares	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	10/1/99¹– 8/31/00
Per-Share Data (\$)				
Net asset value at beginning of period	9.75	10.00	9.92	10.00
Income from investment operations:				
Net investment income	0.30	0.42	0.62	0.61
Net realized and unrealized gains or losses	(0.02)	(0.23)	0.08	(0.08)
Total income from investment operations	0.28	0.19	0.70	0.53
Less distributions:				
Dividends from net investment income	(0.33)	(0.44)	(0.62)	(0.61)
Net asset value at end of period	9.70	9.75	10.00	9.92
Total return (%)	2.95	1.89	7.33	5.44²
Ratios/Supplemental Data (%)				
Ratios to average net assets:				
Net operating expenses	0.59	0.55	0.55	0.55³,⁴
Gross operating expenses	0.59	0.62	0.71	0.80³
Net investment income	3.08	4.36	6.03	6.72³
Portfolio turnover rate	109	42	106	81
Net assets, end of period (\$ x 1,000,000)	410	392	185	53

¹ Commencement of operations.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had been included.

Select Shares®	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	10/1/99 ¹ – 8/31/00
Per-Share Data (\$)				
Net asset value at beginning of period	9.75	10.00	9.92	10.00
Income from investment operations:				
Net investment income	0.32	0.44	0.64	0.62
Net realized and unrealized gains or losses	(0.02)	(0.24)	0.08	(0.08)
Total income from investment operations	0.30	0.20	0.72	0.54
Less distributions:				
Dividends from net investment income	(0.35)	(0.45)	(0.64)	(0.62)
Net asset value at end of period	9.70	9.75	10.00	9.92
Total return (%)	3.10	2.04	7.50	5.58 ²
Ratios/Supplemental Data (%)				
Ratios to average net assets:				
Net operating expenses	0.44	0.40	0.40	0.40 ^{3,4}
Gross operating expenses	0.44	0.47	0.56	0.65 ³
Net investment income	3.23	4.52	6.18	6.88 ³
Portfolio turnover rate	109	42	106	81
Net assets, end of period (\$ x 1,000,000)	1,476	1,443	772	219

¹ Commencement of operations.² Not annualized.³ Annualized.⁴ The ratio of net operating expenses would have been 0.41% if certain non-routine expenses (proxy fees) had been included.

Portfolio Holdings as of August 31, 2003.

This section shows all the securities in the fund's portfolio and their market value, as of the report date.

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

① Top ten holding

■ Collateral for futures contracts

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Market Value (\$x1,000)
47.4%	Corporate Bonds	880,902	885,224
45.0%	Collateralized Mortgage Obligations & Asset-Backed Obligations	837,274	839,474
0.8%	Municipal Bonds	15,000	15,135
4.3%	Commercial Paper & Other Corporate Obligations	80,955	80,958
0.2%	Fixed-Rate – U.S. Government Securities	2,998	2,998
2.3%	Preferred Stock	43,504	42,387
0.0%	Other Investment Companies	899	899
100.0%	Total Investments	1,861,532	1,867,075

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Corporate Bonds 47.4% of investments

Fixed-Rate Obligations 28.1%

■ AB Spintab, 144A 7.50%, 08/14/49	900	996
■ Abitibi Consolidated, Inc. 8.30%, 08/01/05	8,630	9,100

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
■ Apple Computers, Inc. 6.50%, 02/15/04	5,850	5,967
■ Archstone-Smith Trust 7.15%, 10/15/03	14,500	14,584
■ Autonation, Inc., 144A 9.00%, 08/01/08	9,450	10,466
■ Bausch & Lomb, Inc. 6.50%, 08/01/05	10,205	10,766
■ Canadian Occidental Petroleum 7.13%, 02/04/04	5,000	5,116
■ Capital One Bank Master Trust 8.25%, 06/15/05	13,000	14,134
■ Chancellor Media / Clear Channel Communication, 144A 8.00%, 11/01/08	9,570	10,910
■ Cinergy Corp. 6.25%, 09/01/04	10,000	10,410
■ Continental Cablevision 9.50%, 08/01/13	14,030	16,489
■ Echostar DPS Corp. 9.38%, 02/01/04	7,000	7,481
■ EOP Operating, L.P. 7.38%, 11/15/03 6.50%, 06/15/04	11,445 1,015	11,574 1,053
■ ERAC U.S.A. Finance Co., 144A 6.95%, 03/01/04	3,575	3,664
■ ERP Operating, L.P. 6.65%, 11/15/03	1,500	1,514
■ France Telecom 8.70%, 03/01/06	5,422	6,030
■ GTE California, Inc. Series B 6.75%, 03/15/04	5,000	5,144
■ HCA, Inc. 6.87%, 09/15/03 7.15%, 03/30/04 6.91%, 06/15/05	5,579 3,418 5,145	5,586 3,485 5,373
■ Husky Oil Ltd., 144A 8.90%, 08/15/28	9,550	10,983
■ ITT Corp. 6.75%, 11/15/03	12,500	12,625

Portfolio Holdings continued

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)	Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date			Rate, Maturity Date		
■ J.C. Penney & Co. 6.13%, 11/15/03	7,185	7,221	■ Pulte Homes, Inc. 7.00%, 12/15/03	7,925	7,992
■ Lear Corp., 144A Series B 7.96%, 05/15/05	14,000	15,085	8.38%, 08/15/04	1,500	1,563
■ Lehman Brothers Holdings, Inc. 8.75%, 03/15/05	7,950	8,716	■ Quebecor Printing 6.50%, 08/01/27	6,000	6,161
■ Lennar Corp. 144A Series B 9.95%, 05/01/10	13,205	15,345	■ Quebecor World, Inc. 8.38%, 11/15/08	1,000	1,045
■ Lincoln National Corp. 9.13%, 10/01/24	5,000	5,544	■ Reliant Energy Resources, 144A Series B 8.13%, 07/15/05	9,876	10,540
■ Mandalay Resort Group., 144A 6.45%, 02/01/06	9,375	9,727	■ Rogers Cable Systems, Ltd. Series _ 10.00%, 03/15/05	5,910	6,287
■ Masco Corp. 6.00%, 05/03/04	14,500	14,895	■ Ryder Systems, Inc. Series 14 6.14%, 09/01/10	5,000	5,025
■ MGM Grand, Inc. 6.95%, 02/01/05	11,475	12,020	■ Ryland Group, Inc. 9.75%, 09/01/05	8,835	9,851
■ MGM Mirage, Inc. 6.63%, 02/01/05	2,451	2,546	9.13%, 06/15/11	500	550
■ Nationwide Capital Surplus Notes 9.88%, 02/15/25	5,000	5,626	■ Safeway, Inc. 7.25%, 09/15/04	5,450	5,741
■ News America, Inc. 6.70%, 05/21/04	8,200	8,436	■ Schuler Homes, 144A 9.38%, 07/15/09	9,464	10,221
■ Norfolk Southern Corp. 8.38%, 05/15/05	3,695	4,065	Simon Debartelo 6.75%, 07/15/04	10,000	10,392
■ Orange, PLC 9.00%, 06/01/09	13,365	14,558	■ Sprint Capital Corp. 7.90%, 03/15/05	6,220	6,672
■ Park Place Entertainment 7.00%, 07/15/04	8,500	8,755	■ Svenska Handelsbanken, 144A 7.13%, 03/29/49	10,000	10,906
Pennsylvania Electric Co. Series A 5.75%, 04/01/04	15,000	15,356	■ Toll Corp. 8.00%, 05/01/09	2,500	2,631
■ PHH Corp. 6.00%, 03/01/08	13,000	13,589	8.25%, 02/01/11	6,810	7,253
■ Pioneer Natural Resources 8.25%, 08/15/07	9,050	10,136	■ Turner Broadcasting 8.40%, 02/01/24	13,000	13,710
■ PNC Funding Corp. 6.13%, 09/01/03	1,200	1,200	■ Tyco International Group, SA 5.88%, 11/01/04	13,225	13,638
7.75%, 06/01/04	1,350	1,413	■ Vodafone Group, PLC 7.00%, 10/01/03	15,000	15,063
■ Protective Life U.S. Funding Trust, 144A 5.50%, 05/14/04	7,000	7,199	■ Waste Management, Inc. 6.38%, 12/01/03	11,070	11,185
			8.75%, 05/01/08	2,700	3,017
					524,325

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

Variable Rate Obligations 19.3%

AB Spintab		
2.11%, 10/31/03	6,500	6,456
Bear Stearns Co., Inc.		
1.60%, 09/27/03	18,000	18,210
BNP Paribas		
1.69%, 09/22/03	10,500	10,365
1.76%, 10/31/03	15,000	14,925
Boise Cascade Co.		
Series A		
3.11%, 10/15/03	15,000	14,925
Centex Corp.		
Series E		
3.13%, 11/21/03	5,000	5,078
Countrywide Home Loan		
Series K		
1.69%, 11/10/03	25,000	25,121
Credit Suisse First Boston International Corp.		
2.01%, 09/08/03	20,000	19,680
Daimler-Chrysler, N.A. Holdings		
2.14%, 09/03/03	20,000	19,739
Deutsche Bank Capital Trust		
2.90%, 09/30/03	15,000	15,293
Ford Motor Credit		
1.55%, 10/17/03	10,000	9,764
General Motors Acceptance Corp.		
3.03%, 11/19/03	15,000	15,100
Gulf States Utilities, 144A		
2.58%, 09/02/03	15,000	15,000
Hertz Corp.		
1.66%, 11/13/03	13,400	13,295
International Lease Finance Corp.		
2.32%, 11/03/03	10,000	10,137
Series O		
2.41%, 10/15/03	10,000	10,152
Lilly del Mar, Inc., 144A		
2.34%, 11/05/03	5,000	4,990
MBNA Corp.		
2.89%, 11/26/04	11,000	11,146
Series F		
2.13%, 03/12/04	5,000	5,017

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

National Consumer Cooperative Bank

Series B		
3.16%, 10/07/03	10,000	10,008
3.39%, 11/05/03	10,000	10,013

Pemex Project Funding Master Trust

2.61%, 10/07/03	10,000	10,111
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Pepco Holdings, Inc.

1.93%, 11/17/03	10,000	10,002
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Popular N.A., Inc.

2.76%, 10/15/03	15,000	15,017
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Sears Roebuck Acceptance Corp.

3.11%, 10/23/03	13,000	13,126
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Societe Generale

1.74%, 10/20/03	15,800	15,714
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Verizon Wireless Capital

1.49%, 09/17/03	17,500	17,515
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Weyerhaeuser Co. 144A

2.24%, 09/15/03	15,000	15,000
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360,899

Collateralized Mortgage Obligations & Asset-Backed Obligations 45.0% of investments

Non-U.S. Government Agency Securities 37.1%**Fixed-Rate Obligations 15.8%****Alter Moneta Receivables, L.L.C.**

Series 2003-1		
2.56%, 03/15/11	10,194	10,180

Asset Backed Funding Certificates

Series 2003-OPT1		
6.90%, 07/26/33	5,000	5,000

Bank of America Mortgage Securities

Series 2001-F Class A2		
5.61%, 11/25/31	1,365	1,392
Series 2001-H Class A1		
5.37%, 12/25/31	2,186	2,259
Series 2002-A Class A1		
5.24%, 02/25/32	2,352	2,408
Series 2002-J Class A2		
4.88%, 09/25/32	10,202	10,115
Series 2003-D Class 2A2		
3.60%, 05/25/33	12,493	12,730

Portfolio Holdings continued

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Chase Funding Net Interest Margin		
Series 2003-3A 6.88%, 06/27/36	1,653	1,651
Series 2003-4A 6.75%, 09/27/36	3,758	3,758
Countrywide Alternative Loan Trust		
Series 2001-5 Class A1 6.50%, 06/25/31	583	585
Series 2002-6 Class A4 5.25%, 07/25/32	1,435	1,437
Countrywide Home Loans		
Series 2001-23 Class 2A1 5.41%, 12/25/31	1,597	1,620
Series 2001-23 Class 3A1 6.25%, 12/25/31	2,422	2,447
Series 2001-HYB2 Class 2A1 6.35%, 09/19/31	3,384	3,422
Series 2002-1 Class 1A1 5.36%, 03/19/32	3,135	3,213
Series 2002-7 Class 3A2 5.42%, 05/19/32	1,124	1,125
Series 2002-HYB1 Class 1A1 5.43%, 07/19/32	5,454	5,596
Series 2002-HYB2 Class 4A1 5.00%, 09/19/32	5,798	5,856
⑩ Series 2003-HYB1 Class 1A1 3.85%, 05/19/33	20,173	19,883
Series 2003-HYB2 Class 1A1 3.45%, 07/19/33	18,779	18,576
CS First Boston Mortgage Securities Corp.		
Series 2002-AR27 Class 1A1 5.42%, 10/25/32	8,067	8,073
Series 2002-AR28 Class 1A2 4.98%, 11/25/32	10,097	10,127
Distribution Financial Services Trust		
Series 2001-1 Class-D 7.73%, 11/15/22	8,250	8,381
Fifth Third Mortgage Loan Trust		
Series 2002-FTB1 Class 3A1 3.91%, 11/19/32	8,288	8,419
Series 2002-FTB1 Series 2A1 6.27%, 11/19/32	9,603	9,857
GSR Mortgage Loan Trust		
Series 2002-3F Class 2AB3 5.50%, 12/25/31	4,972	5,055

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Series 2002-6F Class 2A5 5.50%, 07/25/32	1,006	1,018
Herd Trust		
Series 2003-2A Class A 11.00%, 06/25/32	5,000	5,004
Impac Secured Asset Common Owner Trust		
Series 2001-8 Class A1 6.50%, 01/25/32	2,729	2,789
Long Beach Asset Holdings, Corp.		
Series 2003-4 Class N1 6.54%, 08/25/33	2,500	2,500
Master Adjustable Rate Mortgages Trust		
Series 2002-4 Class 1A1 5.27%, 11/25/32	12,038	12,137
Series 2002-4 Class 2A1 5.48%, 11/25/32	8,929	9,011
Series 2002-4 Class 3A1 5.27%, 11/25/32	6,477	6,475
Series 2003-1 Class 1A1 4.15%, 12/25/32	7,006	7,005
Morgan Stanley Dean Witter Capital I		
Series 2002-HE3N 9.50%, 12/27/32	5,282	5,285
Series 2002-NC4N 9.50%, 09/25/32	3,087	3,090
Novastar NIM Trust		
Series 2003-N1 7.39%, 09/28/33	1,849	1,849
Option One Mortgage Loan Trust		
Series 2003-2B Class N1 7.63%, 04/26/33	1,461	1,462
Residential Accredit Loans, Inc.		
Series 1999-QS8 Class A1 6.50%, 06/25/14	7,104	7,317
Series 2000-QS4 Class NB 7.50%, 03/25/15	698	718
Residential Funding Mortgage Securities I Trust		
Series 1993-S13 Class A9 6.52%, 03/25/08	1,228	1,227
Residential Funding Securities Corp.		
Series 2001-RM1 Class A 6.18%, 12/25/29	820	819
Structured Asset Securities Corp.		
Series 2001-14A Class 2A1 6.05%, 08/25/31	1,307	1,316

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Washington Mutual		
Series 2002-AR15 Class A3 4.07%, 12/25/32	3,319	3,316
Series 2002-AR19 Class A7 4.68%, 02/25/33	14,656	15,022
Series 2003-AR1 Class A6 4.56%, 03/25/33	6,763	6,783
Series 2003-AR8 Class A 4.03%, 08/25/33	14,742	14,686
Series 2003-AR9 Class 1A2A 2.31%, 09/25/33	15,176	15,072
Washington Mutual MSC Mortgage Pass-Through Trust		
Series 2001-AR1 Class A 6.03%, 12/26/31	3,151	3,180
Wells Fargo Mortgage Backed Securities Trust		
Series 2001-25 Class IA1 6.20%, 10/25/31	642	644
Series 2002-E Class 2A1 5.22%, 09/25/32	4,218	4,275
		295,165
Variable Rate Obligations 21.3%		
Ameriquest Mortgage Securities, Inc.		
Series 2003-6 Class M1 1.87%, 09/25/03	15,000	15,029
Series 2003-6 Class M2 2.96%, 09/25/03	5,000	5,038
Series 2003-AR2 Class M2 3.14%, 09/25/03	5,000	5,005
Series 2003-AR3 Class M2 3.14%, 09/25/03	5,000	5,076
Amortizing Residential Collateral Trust		
Series 2002-BC1 Class M2 2.21%, 09/25/03	10,000	9,873
Asset Backed Funding Certificates		
Series 2003-AHL1 Class M1 1.94%, 09/25/03	7,500	7,505
Series 2003-OPT1 Class M2 2.66%, 09/25/03	5,000	5,000
Asset Backed Securities Corp. Home Equity		
Series 2001-HE3 Class M2 2.16%, 09/15/03	6,000	5,958
Series 2003-HE2 Class M2 3.01%, 09/15/03	4,460	4,466

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Bayview Financial Acquisition Trust		
Series 2003-BA Class M1 2.61%, 09/25/03	12,773	12,785
Bear Stearns Asset Backed Securities, Inc.		
Series 1999-1 Class MV1 1.78%, 09/25/03	12,011	12,027
Capital One Multi-Asset Execution Trust		
Series 2003-C1 Class C1 3.66%, 09/15/03	3,500	3,581
CDC Mortgage Capital Trust		
Series 2003-HE1 Class M1 2.01%, 09/25/03	18,000	18,031
Series 2003-HE2 Class M2 3.01%, 09/25/03	5,000	5,045
Centex Home Equity		
Series 2003-B Class M2 2.81%, 09/25/03	6,500	6,505
Countrywide Asset Backed Certificates		
5 Series 2000-2 Class MV2 2.01%, 09/25/03	24,000	24,002
Series 2002-6 Class M1 2.21%, 09/25/03	3,000	3,025
Series 2002-6 Class M2 3.21%, 09/25/03	4,800	4,857
Series 2003-BC1 Class M2 3.11%, 09/25/03	14,500	14,701
CS First Boston Mortgage Securities Corp.		
Series 2000-HE1 Class M2 2.18%, 09/15/03	5,000	4,986
Long Beach Mortgage Loan Trust		
1 Series 2001-3 Class M1 1.66%, 09/25/03	25,249	25,222
Series 2003-2 Class M1 1.93%, 09/25/03	15,000	15,014
Series 2003-2 Class M2 3.01%, 09/25/03	10,000	10,019
Series 2003-2 Class M3 3.36%, 09/25/03	2,190	2,185
Series 2003-4 Class M5A 5.11%, 09/25/03	3,000	2,955
Master Asset Backed Securities Trust		
Series 2002-OPT1 Class M2 3.06%, 09/25/03	10,000	10,051
6 Series 2003-OPT1 Class A2 1.53%, 09/25/03	21,594	21,648

Portfolio Holdings continued

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)	Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date			Rate, Maturity Date		
Series 2003-OPT2 Class M1			Pool# 250499		
1.85%, 09/25/03	13,000	13,023	7.00%, 03/01/11	321	341
MBNA Credit Card Master Note Trust			Pool# 323970		
Series 2003-B3 Class B3			7.00%, 10/01/14	478	509
1.48%, 09/15/03	10,000	10,002	Pool# 536005		
MBNA Credit Card Master Note Trust			7.00%, 12/01/14	1,445	1,537
Series 2003-C3 Class C3			Pool# 252977		
2.46%, 09/30/03	10,000	10,127	7.00%, 01/01/15	181	192
MBNA Master Credit Card Trust			Pool# 526933		
Series 1999-L Class C			7.00%, 01/01/15	260	276
2.19%, 09/15/03	8,000	8,080	Pool# 529057		
MMCA Automobile Trust			7.00%, 03/01/15	216	230
Series 2002-5 Class C			Pool# 536367		
3.26%, 09/15/03	5,960	5,967	7.00%, 05/01/15	56	60
New Century Home Equity Loan Trust			Pool# 541800		
Series 2003-3 Class M3			7.00%, 06/01/15	276	294
3.49%, 09/25/03	7,686	7,683	Pool# 535461		
Option One Mortgage Loan Trust			7.00%, 07/01/15	1,049	1,115
Series 2003-1 Class M1			Pool# 542497		
2.01%, 09/25/03	8,000	8,064	7.00%, 07/01/15	261	277
Series 2003-2 Class M1			Pool# 545034		
1.76%, 09/25/03	15,000	15,058	7.00%, 12/01/15	463	492
Series 2003-2 Class M2			Pool# 535740		
2.81%, 09/25/03	3,000	3,017	7.00%, 12/01/15	1,184	1,259
Series 2003-3 Class N			Pool# 535631		
1.42%, 09/25/03	4,027	4,029	7.00%, 12/01/15	4,887	5,198
Series 2003-4 Class M2			Pool# 253541		
2.76%, 09/25/03	6,000	6,006	7.00%, 12/01/15	74	79
Series 2003-4 Class M4			Pool# 535662		
4.11%, 09/25/03	3,500	3,506	7.00%, 01/01/16	814	866
Residential Asset Securities Corp.			Pool# 535675		
Series 2003-KS1 Class M2			7.00%, 01/01/16	857	912
2.85%, 09/25/03	7,000	7,046	Pool# 548205		
Series 2003-KS6 Class M2			7.00%, 01/01/16	359	382
2.61%, 09/25/03	15,300	15,465	Pool# 567601		
9 Terrapin Funding, L.L.C.			7.00%, 02/01/16	230	244
Series 2003-1A Class B1			Pool# 595654		
2.40%, 09/08/03	20,000	20,000	7.00%, 03/01/16	93	99
		396,662	Pool# 535801		
U.S. Government Agency Securities 7.9%			7.00%, 03/01/16	264	280
Fannie Mae			Pool# 545202		
Pool# 401049			7.00%, 07/01/16	348	370
7.00%, 08/01/07	78	81	Pool# 660726		
Pool# 500521			7.00%, 08/01/16	200	213
7.00%, 06/01/09	266	287	Pool# 545369		
			7.00%, 09/01/16	1,208	1,285
			Pool# 254272		
			7.00%, 03/01/17	1,439	1,530

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Pool# 555532 7.00%, 12/01/17	7,924	8,428
Pool# 586276 5.80%, 06/01/31	1,370	1,415
Pool# 598596 6.10%, 07/01/31	2,323	2,375
Pool# 563434 6.05%, 07/01/31	1,262	1,285
Series 2003-22 Class UK 4.00%, 09/25/31	15,678	15,197
Pool# 606857 5.53%, 10/01/31	4,977	5,085
Pool# 607308 6.05%, 10/01/31	4,369	4,464
Pool# 610546 5.80%, 11/01/31	3,467	3,559
Pool# 613101 5.56%, 11/01/31	2,955	3,036
Pool# 621636 5.15%, 01/01/32	5,248	5,418
Series 2003-37 Class FK 1.90%, 05/25/33	8,361	8,363
Pool# 535314 6.24%, 08/01/39	3,730	3,815
Freddie Mac		
Pool# M80685 6.00%, 05/01/08	939	963
Pool# G11226 5.50%, 08/01/11	1,811	1,862
Series 61 Class D 9.30%, 11/15/20	1,112	1,114
Pool# 786823 6.10%, 07/01/29	5,866	6,030
Pool# 846902 6.53%, 04/01/31	2,547	2,631
Pool# 788677 5.45%, 10/01/31	3,606	3,701
Freddie Mac Structured Pass Through Securities		
④ Series H008 Class A2 1.77%, 06/15/07	25,000	24,947
③ Series H004 Class A2 2.59%, 12/15/07	25,000	24,975
Vendee Mortgage Trust		
Series 2001-1 Class 2B 7.00%, 12/15/22	574	576
		147,647

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Municipal Bonds 0.8% of investments
California State Department of Water Resources

Power Supply Revenue 3.59%, 05/01/04	15,000	15,135
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**Commercial Paper & Other Corporate Obligations
4.3% of investments**
Atlantis Two Funding Corp.

1.20%, 09/11/03	4,785	4,784
1.20%, 09/18/03	10,000	9,995

⑧ Conoco Phillips

1.07%, 09/05/03	20,360	20,358
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Daimler-Chrysler, N.A. Holdings

1.20%, 09/04/03	6,900	6,900
1.22%, 09/19/03	10,000	9,994

Ford Motor Credit

1.25%, 09/03/03	4,050	4,050
1.19%, 09/12/03	4,900	4,898

General Mills, Inc.

1.10%, 09/22/03	5,990	5,986
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International Flavors

1.15%, 09/23/03	10,000	9,993
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Washington Mutual Capital I

1.18%, 09/02/03	4,000	4,000
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80,958
**Fixed-Rate – U.S. Government Securities
0.2% of investments**
Discount Notes 0.2%
■ U.S. Treasury Bills

0.82%, 09/18/03	2,000	1,999
0.92%, 10/30/03	1,000	999

2,998

Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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Preferred Stock 2.3% of investments**7 ABN AMRO XIX Custodial Receipts**

200,000	20,724
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Deutsche Bank Capital Trust II

64,473	6,650
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Grand Metro Delaware, L.P.

140,000	3,753
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Lehman Brothers Holdings, Inc.

208,000	11,260
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42,387
Other Investment Companies

0.0% of investments

Provident Institutional Funds—

Fed Funds Portfolio 899,243	899
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End of portfolio holdings. For totals, please see the first page of holdings for this fund.

In addition to the above, the fund held the following at 8/31/03. All numbers are x 1,000 except number of futures contracts.

Futures Contracts

	Number of Contracts	Contract Value	Unrealized Losses
2 Year, Short U.S. Treasury Note, expires 12/18/03	1,000	213,047	(222)
5 Year, Short U.S. Treasury Note, expires 12/18/03	1,700	186,761	(186)
			<hr/> (408)

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value	\$1,867,075
Receivables:	
Fund shares sold	2,981
Interest	11,932
Dividends	540
Investments sold	37,810
Investments matured	1,662
Due from brokers for futures	475
Prepaid expenses	+ 86
Total assets	1,922,561

Liabilities

Payables:	
Fund shares redeemed	4,604
Dividends to shareholders	4,701
Investments bought	26,911
Investment adviser and administrator fees	48
Transfer agent and shareholder service fees	21
Accrued expenses	+ 101
Total liabilities	36,386

Net Assets

Total assets	1,922,561
Total liabilities	- 36,386
Net assets	\$1,886,175

Net Assets by Source

Capital received from investors	1,934,882
Distributions in excess of net investment income	(688)
Net realized capital losses	(53,154)
Net unrealized capital gains	5,135

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$409,880		42,234		\$9.70
Select Shares®	\$1,476,295		152,117		\$9.70

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$1,861,532. Not counting short-term obligations and government securities, the fund paid \$1,154,222 for securities during the report period, and received \$1,262,239 from securities it sold or that matured. For long-term government securities, the fund paid \$108,069 during the report period and received \$161,896 for securities it sold or that matured. Included in the total purchases and sales amounts are \$21,954 in transactions with other SchwabFunds®.

These derive from investments, futures and short sales.

Federal Tax Data

Portfolio cost	\$1,861,532
Net unrealized gains and losses:	
Gains	\$12,667
Losses	+ (7,124)
	\$5,543

As of August 31, 2003:**Undistributed earnings:**

Ordinary income	\$4,013
Long-term capital gains	\$—

Unused capital losses:

Expires 08/31 of:	
2009	\$1,318
2010	2,061
2011	+ 47,204
	\$50,583

Deferred capital losses	\$2,978
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Reclassifications:

Net realized capital gains	(5,474)
Reclassified as:	
Net investment income not yet distributed	\$5,474

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

Investment Income

Interest	\$62,373
Dividends	3,825
Total investment income	66,198

An additional \$3 was held for foreign taxes.

Net Realized Gains and Losses

Net realized losses on investments sold	(3,486)
Net realized losses on futures contracts	+ (6,073)
Net realized losses	(9,559)

Calculated as a percentage of average daily net assets: 0.35% of the first \$500 million and 0.30% of assets beyond that.

Net Unrealized Gains and Losses

Net unrealized gains on investments	4,675
Net unrealized gains on futures contracts	+ 2,686
Net unrealized gains	7,361

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.05% of the assets of each respective share class. These fees are paid to Charles Schwab & Co.

Expenses

Investment adviser and administrator fees	5,667
Transfer agent and shareholder service fees:	
Investor Shares	972
Select Shares®	1,417
Trustees' fees	18
Custodian and portfolio accounting fees	177
Professional fees	39
Registration fees	80
Shareholder reports	142
Other expenses	+ 29
Total expenses	8,541
Expense reduction	- 106
Net expenses	8,435

For the fund's independent trustees only.

Includes \$104 from the investment adviser (CSIM) and \$2 from the transfer agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through November 15, 2002 at 0.55% and 0.40% for the Investors shares and the Select® shares, respectively. This limit doesn't include interest, taxes and certain non-routine expenses. Effective November 16, 2002, this limit no longer applies.

Increase in Net Assets from Operations

Total investment income	66,198
Net expenses	- 8,435
Net investment income	57,763
Net realized losses	(9,559)
Net unrealized gains	+ 7,361
Increase in net assets from operations	\$55,565

These add up to a net loss on investments of \$2,198.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$57,763	\$71,495
Net realized losses	(9,559)	(34,142)
Net unrealized gains or losses	+ 7,361	(7,702)
Increase in net assets from operations	55,565	29,651

Distributions Paid**Dividends from Net Investment Income**

Investor Shares	13,311	14,312
Select Shares®	+ 50,614	59,436
Total dividends from net investment income	\$63,925	\$73,748

Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares Sold				
Investor Shares	23,619	\$229,942	41,617	\$411,536
Select Shares	+ 81,350	791,784	151,583	1,500,276
Total shares sold	104,969	\$1,021,726	193,200	\$1,911,812
Shares Reinvested				
Investor Shares	1,195	\$11,632	1,146	\$11,301
Select Shares	+ 4,298	41,834	4,368	43,066
Total shares reinvested	5,493	\$53,466	5,514	\$54,367
Shares Redeemed				
Investor Shares	(22,812)	(\$221,943)	(20,994)	(\$206,500)
Select Shares	+ (81,619)	(794,027)	(85,131)	(837,256)
Total shares redeemed	(104,431)	(\$1,015,970)	(106,125)	(\$1,043,756)
Net transactions in fund shares	6,031	\$59,222	92,589	\$922,423

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	188,320	\$1,835,313	95,731	\$956,987
Total increase	+ 6,031	50,862	92,589	878,326
End of period	194,351	\$1,886,175	188,320	\$1,835,313

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions paid for the current report period are:

Ordinary income	\$63,925
Long-term capital gains	\$—

Dollar amounts are net of proceeds received from the 0.25% early withdrawal fee the fund charges on shares sold 90 days or less after buying them:

Current Period	
Investor Shares	\$6
Select Shares®	+ 10
Total	\$16
Prior Period	
Investor Shares	\$60
Select Shares®	+ 225
Total	\$285

Effective November 16, 2002, the early withdrawal fee was eliminated.

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes distributions in excess of net investment income in the amount of \$688 at the end of the current period and net investment income not yet distributed in the amount of \$0 for the prior period.

Schwab Short-Term Bond Market Fund

Financial Statements

Financial Highlights

	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	9/1/99– 8/31/00	9/1/98– 8/31/99
Per-Share Data (\$)					
Net asset value at beginning of period	10.07	10.08	9.65	9.66	9.90
Income from investment operations:					
Net investment income	0.34	0.50	0.59	0.57	0.50
Net realized and unrealized gains or losses	0.07	(0.02)	0.43	(0.01)	(0.24)
Total income from investment operations	0.41	0.48	1.02	0.56	0.26
Less distributions:					
Dividends from net investment income	(0.34)	(0.49)	(0.59)	(0.57)	(0.50)
Net asset value at end of period	10.14	10.07	10.08	9.65	9.66
Total return (%)	4.16	4.88	10.84	5.97	2.66
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.43	0.35	0.35	0.35 ¹	0.35
Gross operating expenses	0.58	0.63	0.66	0.68	0.77
Net investment income	3.34	4.95	5.90	5.91	5.11
Portfolio turnover rate	124	150	248	129	195
Net assets, end of period (\$ x 1,000,000)	648	493	369	219	218

¹ The ratio of net operating expenses would have been 0.36% if certain non-routine expenses (proxy fees) had been included.

Portfolio Holdings as of August 31, 2003

This section shows all the securities in the fund's portfolio and their market value, as of the report date.

We use the symbol below to designate the top ten holdings; the number in the circle is the security's rank among the top ten.

① Top ten holding

■ Collateral for futures contracts

◆ Collateral for short sales

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
51.5% Fixed-Rate – U.S. Government Securities		
	337,625	338,967
33.7% Corporate Bonds	218,657	222,095
11.5% Collateralized Mortgage Obligations & Asset-Backed Obligations	76,313	75,845
0.5% Municipal Bonds	3,000	3,027
2.7% Commercial Paper & Other Corporate Obligations	17,896	17,896
0.1% Other Investment Companies	439	439
100.0% Total Investments	653,930	658,269

Short Sales by Category	Proceeds (\$x1,000)	Market Value (\$x1,000)
Short Sales	4,409	4,428

Collateral Received for Securities Lending	Cost (\$x1,000)	Market Value (\$x1,000)
Commercial Paper & Other Corporate Obligations	3,979	3,979
Short-Term Investments	32,956	32,956
Other Investment Companies	133,245	133,245
Total Collateral Received for Securities Lending	170,180	170,180

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Fixed-Rate – U.S. Government Securities

51.5% of investments

Coupon Notes 36.8%**U.S. Treasury Notes**

	2.25%, 07/31/04	5,000	5,047
	2.13%, 08/31/04	5,000	5,044
	7.88%, 11/15/04	6,000	6,461
⑧	2.00%, 11/30/04	11,000	11,081
	1.75%, 12/31/04	6,000	6,022
①	1.63%, 01/31/05	18,000	18,023
	7.50%, 02/15/05	10,000	10,851
	1.50%, 02/28/05	10,000	9,988
	1.63%, 03/31/05	2,000	2,000
	6.75%, 05/15/05	3,150	3,414
	1.13%, 06/30/05	10,000	9,878
⑨	6.50%, 08/15/05	10,000	10,880
	5.75%, 11/15/05	8,000	8,635
	5.63%, 02/15/06	10,000	10,824
⑥	2.00%, 05/15/06	13,000	12,903
	6.88%, 05/15/06	3,500	3,914
⑦	7.00%, 07/15/06	10,000	11,257
②	2.38%, 08/15/06	17,500	17,452
⑩	6.50%, 10/15/06	9,000	10,050
	6.25%, 02/15/07	5,000	5,576
	4.38%, 05/15/07	3,000	3,156
	3.25%, 08/15/07	4,000	4,036
	3.00%, 11/15/07	7,000	6,967
	3.00%, 02/15/08	10,750	10,640
	5.50%, 02/15/08	5,000	5,472
	2.63%, 05/15/08	11,000	10,657
	5.63%, 05/15/08	6,000	6,594

Portfolio Holdings continued

Security Series	Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)	Security Series	Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
	3.25%, 08/15/08	10,000	9,915	■ Chancellor Media / Clear Channel Communication, 144A	8.00%, 11/01/08	2,000	2,280
	4.75%, 11/15/08	5,000	5,292				
			242,029	■ Columbia Energy Group Series F	7.42%, 09/07/03	3,000	3,223
Agency Obligations 14.6%				■ Continental Cablevision	9.50%, 08/01/13	3,270	3,843
Fannie Mae				Ford Motor Credit	6.88%, 02/01/06	4,000	4,203
⑤	1.88%, 12/15/04	13,000	13,055	■ France Telecom	8.70%, 03/01/06	2,000	2,224
◆	3.88%, 03/15/05	10,000	10,323	■ General Electric Capital Corp. Series A	4.25%, 01/15/08	4,000	4,070
	2.88%, 10/15/05	10,000	10,136	■ General Mills, Inc.	5.13%, 02/15/07	5,000	5,346
	4.38%, 10/15/06	5,000	5,220	■ Goldman Sachs Group, Inc.	4.13%, 01/15/08	4,000	4,027
	5.00%, 01/15/07	5,000	5,309	HCA, Inc.	7.15%, 03/30/04	500	510
	4.25%, 07/15/07	5,000	5,164	■ 6.91%, 06/15/05	4,100	4,282	
	3.25%, 11/15/07	5,000	4,954	Highmark, Inc., 144A	6.80%, 08/15/13	5,000	5,119
	2.50%, 06/15/08	10,000	9,474	■ Household Finance Corp.	6.40%, 06/17/08	5,000	5,466
Freddie Mac				■ Husky Oil Ltd., 144A	8.90%, 08/15/28	4,210	4,841
	3.00%, 07/15/04	5,000	5,072	■ ITT Corp.	6.75%, 11/15/03	2,000	2,020
	1.88%, 01/15/05	10,000	10,023	■ J.P. Morgan Chase & Co.	3.63%, 05/01/08	5,000	4,927
	5.25%, 01/15/06	3,000	3,196	■ Jones Intercable, Inc. (Comcast Corp.)	8.88%, 04/01/07	2,000	2,102
	2.75%, 08/15/06	4,000	3,992	Lear Corp., 144A Series B	7.96%, 05/15/05	1,000	1,078
	3.50%, 09/15/07	10,000	10,022	■ Lennar Corp. 144A Series B	9.95%, 05/01/10	2,411	2,802
			95,940	Mandalay Resort Group, 144A	6.50%, 07/31/09	1,000	1,008
U.S.Treasury Bills 0.1%							
■ U.S. Treasury Bills							
	0.95%, 10/30/03	1,000	998				
Corporate Bonds 33.7% of investments							
Fixed-Rate Obligations 29.1%							
■ AB Spintab, 144A							
	7.50%, 08/14/49	5,000	5,531				
■ Abitibi Consolidated, Inc.							
	6.95%, 04/01/08	5,000	5,016				
■ Appalachian Power Co.							
	3.60%, 05/15/08	4,000	3,864				
■ Autonation, Inc., 144A							
	9.00%, 08/01/08	2,000	2,215				
■ Bank of America Corp.							
	3.88%, 01/15/08	5,000	5,020				
■ Cendant Corp., 144A							
	6.88%, 08/15/06	3,500	3,807				

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
■ MGM Mirage, Inc. 7.25%, 10/15/06	1,265	1,357
■ Miller Brewing Co., 144A 4.25%, 08/15/08	2,000	1,996
■ News America, Inc. 6.63%, 01/09/08	2,000	2,202
■ Nordbanken AB, 144A 7.25%, 11/12/09	4,000	4,245
■ Northrop Gruman Corp. 9.38%, 10/15/24	5,580	6,148
■ Orange, PLC 9.00%, 06/01/09	5,605	6,105
■ Phillips Petroleum Co. 8.50%, 05/25/05	2,000	2,216
■ Pioneer Natural Resource 6.50%, 01/15/08	4,244	4,520
■ Protective Life U.S. Funding Trust, 144A 5.50%, 05/14/04	5,000	5,142
■ Province of Ontario 6.00%, 02/21/06	6,000	6,476
■ Raytheon Co. 6.50%, 07/15/05	3,000	3,216
■ Reliant Energy Resources, 144A Series B 8.13%, 07/15/05	2,150	2,295
■ Republic of Italy 4.38%, 10/25/06	6,000	6,254
■ Republic of South Africa 9.13%, 05/19/09	2,000	2,385
■ Ryland Group, Inc. 9.13%, 06/15/11	4,500	4,950
■ Schuler Homes, 144A 9.38%, 07/15/09	792	855
■ Socgen Real Estate, L.L.C., 144A Series A 7.64%, 12/29/49	8,000	8,936
■ Svenska Handelsbanken, 144A 7.13%, 03/07/49	5,000	5,453
■ Telus Corp. 7.50%, 06/01/07	2,000	2,185

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
■ Toll Corp. 8.13%, 02/01/09	1,014	1,072
■ Tritel PCA, Inc., 144A 10.38%, 01/15/11	2,000	2,415
■ Turner Broadcasting 8.40%, 02/01/24	5,000	5,273
■ Tyco International Group, SA 5.88%, 11/01/04	4,000	4,125
■ Union Pacific Corp. 8.35%, 05/01/25	2,000	2,237
■ United Mexican States 4.63%, 10/08/08	3,000	2,978
■ Verizon Global Funding Group 4.00%, 01/15/08	5,000	5,011
■ Waste Management, Inc. 7.00%, 10/15/06	2,825	3,099
		191,970

Variable Rate Obligations 4.6%

■ Countrywide Home Loan Series K 1.95%, 11/10/03	5,000	5,024
■ Credit Suisse First Boston International Corp. 2.01%, 09/08/03	3,000	2,952
■ General Motors Acceptance Corp. 3.03%, 11/19/03	5,000	5,033
■ Hertz Corp. 1.66%, 11/13/03	5,000	4,961
■ International Lease Finance Corp. 2.32%, 11/03/03	5,000	5,068
■ MBNA Corp. 2.89%, 11/26/03	2,000	2,027
■ Sears Roebuck Acceptance Corp. 3.93%, 11/24/03	5,000	5,060
		30,125

Portfolio Holdings continued

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

Collateralized Mortgage Obligations & Asset-Backed Obligations 11.5% of investments

Non-U.S. Government Agency Securities 5.7%

Fixed-Rate Obligations 3.1%
Alter Moneta Receivables, L.L.C.

Series 2003-1		
2.56%, 03/15/11	3,399	3,391

■ **Capital One Master Trust**

Series 2000-2 Class A		
7.20%, 08/15/08	5,000	5,388

Morgan Stanley Dean Witter Capital I

Series 2002-HE3N		
9.50%, 12/27/32	1,681	1,682

Residential Asset Mortgage Products, Inc.

Series 2003-RZ3 Class A3		
2.14%, 02/25/30	10,000	9,724
		20,185

Variable Rate Obligations 2.6%
Bayview Financial Acquisition Trust

Series 2003-BA Class M1		
2.61%, 09/25/03	3,406	3,407

MBNA Credit Card Master Note Trust

Series 2003-B3 Class B3		
1.48%, 10/15/03	5,000	4,998

Option One Mortgage Loan Trust

Series 2003-3 Class N		
1.42%, 09/26/03	4,027	4,032

Terrapin Funding, L.L.C.

Series 2003-1A Class B1		
2.40%, 09/08/03	5,000	5,000
		17,437

U.S. Government Agency Securities 5.8%
Freddie Mac

Series 2574 Class JM		
5.00%, 12/15/22	8,473	8,541

Freddie Mac Structured Pass Through Securities

③ Series H006 Class A2		
2.84%, 02/05/10	15,000	14,987

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

④ Series H010 Class A3		
2.72%, 04/15/10	15,000	14,695
		38,223

Municipal Bonds 0.5% of investments
California State Department of Water Resources

Power Supply Revenue		
3.59%, 05/01/04	3,000	3,027

Commercial Paper & Other Corporate Obligations 2.7% of investments
Atlantis Two Funding Corp

1.30%, 09/02/03	8,097	8,097
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Atlantis Two Funding Corp.

1.25%, 09/11/03	2,800	2,799
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Washington Mutual Capital I

1.18%, 09/02/03	7,000	7,000
		17,896

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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Other Investment Companies 0.1% of investments
Provident Institutional Funds—

Fed Funds Portfolio 438,652	439
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End of portfolio holdings. For totals, please see the first page of holdings for this fund.

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

Short Sales**Coupon Notes**

U.S. Treasury Notes		
4.25%, 08/15/13	4,500	4,428

End of short sales. For totals, please see the first page of holdings for this fund.

Collateral Received for Securities Lending**Commercial Paper & Other Corporate Obligations**

Concorde MM Cap. Co.		
1.08%, 09/12/03	3,983	3,979

Short-Term Investments

Chase Manhattan Bank Time Deposit		
1.00%, 09/02/03	11,466	11,466
Southtrust Bank Time Deposit		
1.00%, 09/02/03	10,024	10,024
Societe Generale Time Deposit		
1.09%, 09/02/03	11,466	11,466
		32,956

In addition to the above, the fund held the following at 4/30/03. All numbers are x 1,000 except number of futures contracts.

Futures Contracts

	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
2 Year, Long U.S. Treasury Note, expires 12/18/03	500	106,523	109
5 Year, Short U.S. Treasury Note, expires 12/18/03	500	54,930	(54)
			55

Security and Number of Shares

Mkt. Value
(\$ x 1,000)

Other Investment Companies**Institutional Money Market**

Trust	133,245	133,245
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End of collateral received from securities lending. For totals, please see the first page of holdings for this fund.

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value (including \$166,917 of securities on loan)	\$658,269
Collateral held for securities on loan	170,180
Receivables:	
Fund shares sold	1,275
Interest	5,577
Investments sold	4,420
Investments sold short	4,419
Due from brokers for futures	16
Prepaid expenses	+ 36
Total assets	\$844,192

Liabilities

Securities sold short, at market value	4,428
Collateral held for securities on loan	170,180
Payables:	
Fund shares redeemed	919
Dividends to shareholders	1,706
Investments bought	19,341
Interest on securities sold short	9
Investment adviser and administrator fees	8
Transfer agent and shareholder service fees	14
Accrued expenses	+ 67
Total liabilities	196,672

Net Assets

Total assets	844,192
Total liabilities	- 196,672
Net assets	\$647,520

Net Assets by Source

Capital received from investors	646,728
Net realized capital losses	(3,583)
Net unrealized capital gains	4,375

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$647,520		63,861		\$10.14

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$653,930. Not counting short-term obligations and government securities, the fund paid \$261,260 for securities during the report period, and received \$204,448 from securities it sold or that matured. For long-term government securities, the fund paid \$536,011 during the reporting period and received \$468,247 for securities it sold or that matured. Included in the total purchases and sales amounts are \$7,385 in transactions with other Schwab Funds®.

The proceeds for securities sold short is \$4,409.

These derive from investments, futures and short sales.

Federal Tax Data

Portfolio cost	\$654,306
Net unrealized gains and losses:	
Gains	\$7,973
Losses	+ (4,010)
	\$3,963

As of August 31, 2003:**Undistributed earnings:**

Ordinary income	\$1,706
Long-term capital gains	\$—

Capital losses utilized \$4,116

Unused capital losses:

Expires 08/31 of:	Loss amount:
2004	1,737
2005	173
2008	+ 1,241
	\$3,151

Reclassifications:

Net realized capital gains	(\$31)
Reclassified as:	
Net investment income not yet distributed	\$31

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

Investment Income

Interest	\$21,808
Lending of securities	293
Dividends	+ 8
Total investment income	22,109

Net Realized Gains and Losses

Net realized gains on investments sold	12,304
Net realized losses on futures contracts	(229)
Net realized gains on short sales	+ 29
Net realized gains	12,104

Net Unrealized Gains and Losses

Net unrealized losses on investments	(9,717)
Net unrealized gains on futures contracts	55
Net unrealized losses on short sales	+ (19)
Net unrealized losses	(9,681)

Expenses

Investment adviser and administrator fees	1,688
Transfer agent and shareholder service fees	1,464
Trustees' fees	11
Custodian and portfolio accounting fees	51
Professional fees	28
Registration fees	46
Shareholder reports	89
Other expenses	+ 16
Total expenses	3,393
Expense reduction	- 868
Net expenses	2,525

Increase in Net Assets from Operations

Total investment income	22,109
Net expenses	- 2,525
Net investment income	19,584
Net realized gains	12,104
Net unrealized losses	+ (9,681)
Increase in net assets from operations	\$22,007

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through at least November 15, 2003, to 0.45% of average daily net assets. Prior to November 16, 2002, this limit was 0.35%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$2,423.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$19,584	\$20,801
Net realized gains or losses	12,104	(7,599)
Net unrealized gains or losses	+ (9,681)	7,295
Increase in net assets from operations	22,007	20,497

Distributions Paid

Dividends from net investment income	\$19,817	\$20,466
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Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	45,091	\$459,837	38,164	\$382,502
Shares reinvested	1,451	14,788	1,465	14,642
Shares redeemed	+ (31,673)	(322,739)	(27,201)	(272,237)
Net transactions in fund shares	14,869	\$151,886	12,428	\$124,907

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	48,992	\$493,444	36,564	\$368,506
Total increase	+ 14,869	154,076	12,428	124,938
End of period	63,861	\$647,520	48,992	\$493,444

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions paid for the current report period are:

Ordinary income	\$19,817
Long-term capital gains	\$—

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$202 at the end of the prior period.

Schwab Total Bond Market Fund

Financial Statements

Financial Highlights

	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01	9/1/99– 8/31/00	9/1/98– 8/31/99
Per-Share Data (\$)					
Net asset value at beginning of period	10.22	10.24	9.65	9.58	10.18
Income from investment operations:					
Net investment income	0.34	0.47	0.60	0.61	0.55
Net realized and unrealized gains or losses	0.10	0.13	0.59	0.07	(0.53)
Total income from investment operations	0.44	0.60	1.19	0.68	0.02
Less distributions:					
Dividends from net investment income	(0.37)	(0.46)	(0.60)	(0.61)	(0.55)
Distributions from net realized gains	(0.09)	(0.16)	—	—	(0.07)
Total distributions	(0.46)	(0.62)	(0.60)	(0.61)	(0.62)
Net asset value at end of period	10.20	10.22	10.24	9.65	9.58
Total return (%)	4.37	6.18	12.68	7.36	0.14
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.43	0.35	0.35	0.35 ¹	0.35
Gross operating expenses	0.54	0.57	0.58	0.63	0.74
Net investment income	3.36	4.66	6.00	6.42	5.55
Portfolio turnover rate	121	74	153	135	174
Net assets, end of period (\$ x 1,000,000)	1,025	1,053	926	647	480

¹ The ratio of net operating expenses would have been 0.36% if certain non-routine expenses (proxy fees) had been included.

Portfolio Holdings as of August 31, 2003

This section shows all the securities in the fund's portfolio and their market value, as of the report date.

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

① Top ten holding

▲ Delayed-delivery security

■ Collateral for futures contracts

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
46.6% Collateralized Mortgage Obligations & Asset-Backed Obligations		
	589,629	583,892
27.1% Corporate Bonds	335,689	339,547
22.5% Fixed-Rate – U.S. Government Securities	280,986	281,532
0.6% Municipal Bonds	7,000	7,063
2.7% Commercial Paper & Other Corporate Obligations	33,991	33,992
0.5% Preferred Stock	5,980	5,943
0.0% Other Investment Companies	722	722
100.0% Total Investments	1,253,997	1,252,691

Collateral Received for Securities Lending	Cost (\$x1,000)	Market Value (\$x1,000)
Short-term Investments	29,863	29,863
Other Investment Companies	121,555	121,555
Total Collateral Received for Securities Lending	151,418	151,418

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

Collateralized Mortgage Obligations & Asset-Backed Obligations 46.6% of investments
Non-U.S. Government Agency Securities 14.0%
Fixed-Rate Obligations 1.8%
Capital One Master Trust

Series 2000-2 Class A		
7.20%, 08/15/08	5,000	5,391

Citibank Credit Card Master Trust I

Series 1999-5 Class A		
6.10%, 05/15/08	5,000	5,440

MBNA Credit Card Master Note Trust

Series 2002-A1 Class A1		
4.95%, 06/15/09	5,000	5,296

Morgan Stanley Dean Witter Capital I

Series 2002-HE3N		
9.50%, 12/27/32	2,881	2,883
Series 2002-NC4N		
9.50%, 09/25/32	3,396	3,399
		22,409

Corporate Bonds 27.1% of investments
Fixed-Rate Obligations 21.8%

AB Spintab, 144A		
7.50%, 08/14/49	6,300	6,969
Abitibi Consolidated, Inc.		
8.55%, 08/01/10	4,000	4,251
■ Appalachian Power Co.		
Series H		
5.95%, 05/15/33	3,000	2,684
■ Autonation, Inc., 144A		
9.00%, 08/01/08	4,150	4,596
Bank of America Corp.		
7.80%, 02/15/10	5,000	5,868
Cendant Corp., 144A		
6.88%, 08/15/06	3,500	3,807
■ Chancellor Media / Clear Channel Communication, 144A		
8.00%, 11/01/08	3,000	3,420

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
■ Citicorp Capital I 7.93%, 02/15/27	3,000	3,329
■ Codelco, Inc., 144A 6.38%, 11/30/12	5,000	5,221
■ Columbia Energy Group Series F 7.42%, 11/28/15	5,800	6,231
■ Continental Cablevision 9.50%, 08/01/13	3,000	3,526
■ CoreStates Capital Trust I, 144A 8.00%, 12/15/26	2,000	2,241
■ Entergy Gulf States, 144A 5.25%, 08/01/15	5,000	4,660
■ ERAC U.S.A. Finance Co., 144A 7.35%, 06/15/08	7,000	7,908
■ Ford Motor Credit 6.88%, 02/01/06	6,000	6,305
■ France Telecom 10.00%, 03/01/31	5,000	6,467
■ General Electric Capital Corp. Series A 6.00%, 06/15/12	5,000	5,288
■ General Mills, Inc. 6.00%, 02/15/12	5,000	5,290
■ General Motors 8.38%, 07/15/33	5,000	4,955
■ Goldman Sachs Group, Inc. 6.88%, 01/15/11 4.75%, 07/15/13	5,000 2,000	5,566 1,895
■ HCA, Inc. 7.15%, 03/30/04 6.91%, 06/15/05	5,800 4,668	5,913 4,875
■ Highmark, Inc., 144A 6.80%, 08/15/13	10,000	10,238
■ Household Finance Corp. 4.75%, 07/15/13	5,000	4,699
■ Husky Oil Ltd., 144A 8.90%, 08/15/28	6,000	6,900
■ International Lease Finance Corp. 5.88%, 05/01/13	2,000	2,033
■ Jones Intercable, Inc. (Comcast Corp.) 8.88%, 04/01/07	5,000	5,256

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
■ Lennar Corp. 144A Series B 9.95%, 05/01/10	5,000	5,810
■ Mandalay Resort Group, 144A 6.50%, 07/31/09	2,000	2,015
■ MDC Holdings, Inc. 5.50%, 05/15/13	7,000	6,619
■ MGM Mirage, Inc. 7.25%, 10/15/06	2,500	2,681
■ Miller Brewing Co., 144A 4.25%, 08/15/08	5,000	4,990
■ Phillips Petroleum Co. 9.38%, 02/15/11	5,000	6,286
■ Principal Life Global, 144A 3.63%, 04/30/08	2,000	1,968
■ Province of Ontario 6.00%, 02/21/06	6,000	6,476
■ Raytheon Co. 6.50%, 07/15/05	7,000	7,505
■ Reliant Energy Resources, 144A Series B 8.13%, 07/15/05	5,390	5,753
■ Republic of Italy 4.38%, 10/25/06	6,000	6,254
■ Republic of South Africa 9.13%, 05/19/09	3,000	3,577
■ Ryland Group, Inc. 5.38%, 06/01/08	7,000	6,983
■ Socgen Real Estate, L.L.C., 144A Series A 7.64%, 12/29/49	5,000	5,585
■ Svenska Handelsbanken, 144A 7.13%, 03/29/49	5,000	5,453
■ TCI Communications, Inc. 7.88%, 02/15/26	5,000	5,543
■ Telus Corp. 7.50%, 06/01/07	2,000	2,185
■ Time Warner, Inc. 9.15%, 02/01/23	5,000	6,030
■ Turner Broadcasting 8.40%, 02/01/24	3,800	4,008

Portfolio Holdings continued

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
■ Tyco International Group, SA 6.38%, 06/15/05	2,000	2,083
Union Pacific Corp. 8.35%, 05/01/25	5,000	5,592
United Mexican States 4.63%, 10/08/08	7,000	6,948
Verizon New England, Inc. 6.50%, 09/15/11	7,000	7,627
Washington Mutual Capital I 8.38%, 06/01/27	3,000	3,344
Waste Management, Inc. 7.38%, 08/01/10	5,000	5,623
XTO Energy, Inc. 7.50%, 04/15/12	5,000	5,400
		272,729

Variable Rate Obligations 5.3%

Boise Cascade Co. Series A 3.11%, 10/15/03	10,000	9,950
Credit Suisse First Boston International Corp. 2.01%, 09/08/03	4,640	4,562
Ford Motor Credit 1.77%, 10/17/03	10,000	9,764
General Motors Acceptance Corp. 3.03%, 11/19/03	10,000	10,067
Gulf States Utilities, 144A 2.58%, 09/02/03	5,000	5,000
Hertz Corp. 1.66%, 11/13/03	10,500	10,418
MBNA Corp. 2.89%, 11/26/03	2,000	2,027
Series F 2.13%, 09/12/03	5,000	5,017
National Consumer Cooperative Bank Series B 3.39%, 11/05/03	10,000	10,013
		66,818

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Fixed-Rate – U.S. Government Securities
22.5% of investments

Coupon Notes 15.8%

U.S. Treasury Bonds

13.75%, 08/15/04	6,000	6,703
9.88%, 11/15/15	5,000	7,339
7.25%, 05/15/16	10,000	12,227
9.00%, 11/15/18	5,000	7,072
8.00%, 11/15/21	7,000	9,255
7.25%, 08/15/22	6,500	8,012
6.25%, 08/15/23	2,000	2,221
6.13%, 11/15/27	7,500	8,258
5.25%, 02/15/29	5,000	4,919
6.13%, 08/15/29	1,000	1,107
6.25%, 05/15/30	10,000	11,290
5.38%, 02/15/31	13,000	13,283

U.S. Treasury Notes

5.25%, 05/15/04	3,500	3,601
2.13%, 10/31/04	3,000	3,027
5.88%, 11/15/04	2,500	2,633
1.63%, 01/31/05	5,000	5,007
7.50%, 02/15/05	8,000	8,681
1.63%, 03/31/05	5,000	4,999
6.50%, 05/15/05	5,000	5,399
1.13%, 06/30/05	5,000	4,939
1.50%, 07/31/05	5,000	4,965
2.00%, 05/15/06	4,000	3,970
4.63%, 05/15/06	5,000	5,300
6.50%, 10/15/06	6,000	6,700
6.25%, 02/15/07	5,000	5,576
6.63%, 05/15/07	2,000	2,262
3.25%, 08/15/07	1,500	1,514
6.13%, 08/15/07	4,000	4,463
3.00%, 11/15/07	3,500	3,484
2.63%, 05/15/08	5,000	4,844
6.50%, 02/15/10	5,000	5,748
5.00%, 08/15/11	7,000	7,372
3.88%, 02/15/13	3,500	3,354
3.63%, 05/15/13	8,500	7,995
4.25%, 08/15/13	900	886

198,405

Agency Obligations 6.6%

Fannie Mae

3.88%, 03/15/05	7,500	7,742
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Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		
4.25%, 07/15/07	5,000	5,164
6.00%, 05/15/08	5,000	5,495
2.50%, 06/15/08	15,000	14,212
6.63%, 09/15/09	2,500	2,817
4.38%, 09/15/12	10,000	9,641
7.25%, 05/15/30	2,500	2,962

Freddie Mac

4.25%, 06/15/05	5,000	5,195
4.88%, 03/15/07	5,000	5,285
7.00%, 03/15/10	5,000	5,741
5.75%, 01/15/12	5,000	5,323
5.13%, 07/15/12	5,000	5,088
4.50%, 01/15/13	5,000	4,838
6.25%, 07/15/32	2,500	2,629

82,132**Discount Notes 0.1%****■ U.S. Treasury Bills**

1.02%, 02/26/04	1,000	995
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Variable Rate Obligations 12.2%**⑦ Aegis Asset Backed Securities Trust**

Series 2003-1 Class A1		
1.51%, 09/25/03	18,603	18,640

Airplanes Pass Through Trust

Series 2001-1A Class A9		
1.66%, 09/15/03	8,000	6,809

Asset Backed Securities Corp. Home Equity Loan Trust

Series 2003-HE1 Class A2		
1.61%, 09/15/03	12,763	12,817

Capital One Multi-Asset Execution Trust

Series 2003-A1 Class A1		
1.50%, 09/15/03	10,000	10,053

⑥ Centex Home Equity Loan Trust

Series 2003-B Class M1		
1.81%, 09/25/03	19,000	19,007

Countrywide Asset-Backed Certificates

Series 2001-3 Class M1		
1.61%, 09/25/03	3,000	3,005
Series 2001-BC3 Class M1		
1.66%, 09/25/03	5,000	4,997
Series 2002-3 Class M1		
1.86%, 09/25/03	4,000	4,012

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date		

⑨ First Franklin Mortgage Loan Asset-Backed Certificates

Series 2002-FF3 Class A2		
1.51%, 09/25/03	17,859	17,918

Long Beach Mortgage Loan Trust

Series 2003-1 Class A2		
1.51%, 09/25/03	4,468	4,477

⑧ Master Asset Backed Securities Trust

Series 2003-OPT1 Class A2		
1.53%, 09/25/03	17,915	17,960

MBNA Credit Card Master Note Trust

Series 2003-B3 Class B3		
1.48%, 10/15/03	10,000	10,002

Peagsus Aviation Lease Securitization

Series 2001-1A Class A3		
1.79%, 09/10/03	9,103	6,742

Provident Bank Home Equity Loan Trust

Series 1997-2 Class A5		
1.34%, 08/13/06	3,050	3,048

Residential Asset Mortgage Products, Inc.

Series 2003-RS1 Class All		
1.50%, 09/25/03	13,202	13,227

152,714**U.S. Government Agency Securities 32.6%****Fannie Mae**

▲ 6.00%, 05/21/07	5,000	5,084
▲ ① 5.50%, 01/12/10	60,000	59,756
▲ ⑤ 5.00%, 12/07/10	25,000	24,195
Pool# 572123		
5.50%, 07/18/06	50	51
Pool# 313346		
7.00%, 01/01/07	537	565
Pool# 177450		
7.00%, 10/01/07	20	21
Pool# 187589		
7.00%, 11/01/07	49	52
Pool# 199468		
7.00%, 01/01/08	302	320
Pool# 234418		
7.00%, 09/01/08	227	241
Pool# 243050		
7.00%, 10/01/08	261	277
Pool# 322816		
7.00%, 09/01/10	54	57

Portfolio Holdings continued

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)	Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Pool# 327130 7.00%, 10/10/10	129	137	Pool# 556587 7.00%, 10/01/15	127	135
Pool# 344397 7.00%, 04/01/11	25	27	Pool# 550415 7.00%, 11/01/15	96	102
Pool# 390378 7.00%, 08/01/12	34	36	Pool# 545034 7.00%, 12/01/15	244	260
Pool# 392512 7.00%, 09/01/12	16	17	Pool# 535662 7.00%, 01/01/16	5,968	6,347
Pool# 404280 7.00%, 12/01/12	75	80	Pool# 570681 5.50%, 02/01/16	7	7
Pool# 417450 7.00%, 02/01/13	46	49	Pool# 535944 7.00%, 02/01/16	643	684
Pool# 323437 5.50%, 12/01/13	629	646	Pool# 572133 7.00%, 02/01/16	73	78
Pool# 482675 5.50%, 01/01/14	178	182	Pool# 572726 7.00%, 03/01/16	91	96
Pool# 440789 5.50%, 03/01/14	15	15	Pool# 572794 7.00%, 03/01/16	41	44
Pool# 488587 5.50%, 03/01/14	105	108	Pool# 253666 7.00%, 03/01/16	384	408
Pool# 482550 5.50%, 04/01/14	52	53	Pool# 574866 5.50%, 04/01/16	39	40
Pool# 491110 5.50%, 04/01/14	167	172	Pool# 505038 5.50%, 06/01/16	21	22
Pool# 492793 5.50%, 06/01/14	65	66	Pool# 580055 5.50%, 07/01/16	60	61
Pool# 496816 5.50%, 06/01/14	59	60	Pool# 622533 7.00%, 04/01/16	269	286
Pool# 498293 7.00%, 07/01/14	18	19	Pool# 253797 5.50%, 05/01/16	1,583	1,620
Pool# 527268 7.00%, 11/01/14	15	16	Pool# 569314 5.50%, 07/01/16	61	63
Pool# 535633 5.50%, 12/01/14	10	10	Pool# 613008 7.00%, 07/01/16	774	824
Pool# 536805 7.00%, 03/01/15	7	7	Pool# 608827 7.00%, 09/01/16	37	40
Pool# 537374 7.00%, 06/01/15	20	21	Pool# 587851 5.50%, 11/01/16	52	53
Pool# 539782 7.00%, 06/01/15	28	30	Pool# 604966 5.50%, 11/01/16	41	42
Pool# 550860 7.00%, 08/01/15	54	57	Pool# 622466 5.50%, 12/01/16	34	35
Pool# 253430 7.00%, 09/01/15	444	472	Pool# 623761 7.00%, 01/01/17	123	131
Pool# 550568 7.00%, 09/01/15	499	530	Pool# 545400 5.50%, 01/01/17	679	695

Security Series	Face Value	Mkt. Value	Security Series	Face Value	Mkt. Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)	Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)
Pool# 545411			Pool# 680035		
5.50%, 01/01/17	800	819	5.50%, 01/01/18	139	142
Pool# 609703			Pool# 681185		
5.50%, 03/01/17	729	746	5.50%, 01/01/18	51	52
Pool# 625942			Pool# 357350		
5.50%, 03/01/17	48	49	5.50%, 02/01/18	236	242
Pool# 638392			Pool# 677606		
5.50%, 03/01/17	1,411	1,442	5.50%, 02/01/18	49	50
Pool# 643839			Pool# 681386		
7.00%, 05/01/17	474	504	5.50%, 02/01/18	68	70
Pool# 644496			Pool# 682986		
5.50%, 06/01/17	834	853	5.50%, 02/01/18	46	47
Pool# 650126			Pool# 687154		
7.00%, 06/01/17	120	127	5.50%, 02/01/18	52	53
Pool# 651274			Pool# 711583		
7.00%, 07/01/17	1,275	1,356	5.50%, 03/01/18	33	33
Pool# 647546			Pool# 555352		
5.50%, 08/01/17	50	51	5.50%, 03/01/18	683	698
Pool# 731473			Pool# 555456		
5.50%, 08/01/17	1,801	1,843	5.50%, 04/01/18	897	917
Pool# 626827			Pool# 699526		
5.50%, 09/01/17	69	70	5.50%, 06/01/18	46	47
Pool# 663217			Pool# 254472		
5.50%, 10/01/17	62	63	6.50%, 09/01/22	9,754	10,130
Pool# 664109			Pool# 628209		
5.50%, 10/01/17	60	61	6.50%, 02/01/32	1,809	1,873
Pool# 545967			Pool# 635861		
5.50%, 10/01/17	70	72	6.50%, 03/01/32	8,079	8,366
Pool# 679284			Pool# 646817		
7.00%, 10/01/17	64	68	6.00%, 04/01/33	10,195	10,369
Pool# 674151			Pool# 644590		
5.50%, 11/01/17	67	68	6.50%, 05/01/32	5,672	5,871
Pool# 254607			Pool# 670402		
7.00%, 11/01/17	756	804	6.50%, 06/01/32	693	718
Pool# 671599			Pool# 545762		
5.50%, 11/01/17	72	73	6.50%, 07/01/32	2,889	2,991
Pool# 639919			Pool# 656434		
5.50%, 11/01/17	815	833	6.50%, 08/01/32	2,296	2,376
Pool# 673022			Pool# 555708		
5.50%, 12/01/17	837	855	7.50%, 01/01/33	13,728	14,599
Pool# 555291			Pool# 680982		
5.50%, 12/01/17	1,545	1,579	6.00%, 01/01/33	13,341	13,568
Pool# 674742			Pool# 720769		
5.50%, 01/01/18	846	865	6.00%, 08/01/33	6,466	6,575
Pool# 677469			▲ Pool# 727107		
5.50%, 01/01/18	1,768	1,807	6.00%, 08/01/33	2,275	2,313
Pool# 678973					
5.50%, 01/01/18	54	55			

Portfolio Holdings continued

Security Series	Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Freddie Mac			
▲ ^③	6.00%, 05/28/06	28,000	28,963
▲ ^⑩	5.00%, 05/02/08	17,000	17,064
Pool# C65062			
	6.50%, 03/01/32	15,009	15,549
Series 2574 Class JM			
	5.00%, 12/15/22	8,473	8,541
Pool# G01477			
	6.00%, 12/01/32	13,178	13,394
④ Freddie Mac Structured Pass Through Securities			
Series H010 Class A3			
	2.72%, 04/15/10	25,000	24,492
Ginnie Mae			
▲	6.00%, 09/01/03	14,000	14,298
▲ ^②	7.00%, 02/03/05	49,000	51,787
▲	8.00%, 10/14/05	10,000	10,750
▲	6.50%, 05/03/06	14,000	14,564
Pool# 781478			
	7.50%, 03/15/32	6,296	6,702
			408,769

Municipal Bonds 0.6% of investments

California State Department of Water Resources			
Power Supply Revenue			
	3.59%, 05/01/04	7,000	7,063

Commercial Paper & Other Corporate Obligations
2.7% of investments

Atlantis Two Funding Corp.			
	1.25%, 09/11/03	3,500	3,499
Daimler-Chrysler, N.A. Holdings			
	1.20%, 09/04/03	4,000	4,000
General Motors Acceptance Corp.			
	1.24%, 09/15/03	10,500	10,495
Kinder Morgan Energy Partners			
	1.10%, 09/02/03	10,000	10,000
PHH Corp.			
	1.13%, 09/15/03	4,000	3,998
Washington Mutual Capital I			
	1.18%, 09/02/03	2,000	2,000
			33,992

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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Preferred Stock 0.5% of investments

Cobank	115,000	5,943
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Other Investment Companies
0.0% of investments

Provident Institutional Funds— Fed Funds Portfolio	722,228	722
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End of portfolio holdings. For totals, please see the first page of holdings for this fund.

Security Series	Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Collateral Received for Securities Lending**Short-Term Investments**

Chase Manhattan Bank Time Deposit			
	1.00%, 09/02/03	10,460	10,460
Southtrust Bank Time Deposit			
	1.00%, 09/02/03	8,943	8,943
Societe Generale Time Deposit			
	1.09%, 09/02/03	10,460	10,460
			29,863

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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Other Investment Companies

Institutional Money Market Trust	121,555	121,555
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End of collateral received from securities lending. For totals, please see the first page of holdings for this fund.

In addition to the above, the fund held the following at 8/31/03. All numbers are x 1,000 except number of futures contracts.

Futures Contracts			
	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
2 Year, Long U.S. Treasury Note, expires 12/18/03	300	63,914	2
30 Year, Short U.S. Treasury Note, expires 12/18/03	100	10,600	(3)
			<u>(1)</u>

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value (including \$148,699 of securities on loan)	\$1,252,691
Collateral held for securities on loan	151,418
Receivables:	
Fund shares sold	670
Dividends	57
Interest	8,232
Prepaid expenses	+ 32
Total assets	1,413,100

Liabilities

Collateral held for securities on loan	151,418
Payables:	
Fund shares redeemed	900
Dividends to shareholders	3,239
Investments bought	232,289
Due to brokers for futures	2
Investment adviser and administration fees	13
Transfer agent and shareholder service fees	21
Accrued expenses	+ 75
Total liabilities	387,957

Net Assets

Total assets	1,413,100
Total liabilities	- 387,957
Net assets	\$1,025,143

Net Assets by Source

Capital received from investors	995,981
Distributions in excess of net investment income	(518)
Net realized capital gains	30,987
Net unrealized capital losses	(1,307)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$1,025,143		100,455		\$10.20

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$1,253,997. Not counting short-term obligations and government securities, the fund paid \$609,213 for securities during the reporting period, and received \$502,611 from securities it sold or that matured. For long-term government securities, the fund paid \$2,223,429 during the report period and received \$799,474 for securities it sold or that matured. Included in the total purchases and sales amounts are \$14,568 in transactions with other Schwab Funds®.

These derive from investments, futures, swap agreements and short sales.

Federal Tax Data

Portfolio cost	\$1,254,810
Net unrealized gains and losses:	
Gains	\$13,969
Losses	+ (16,088)
	(\$2,119)

As of August 31, 2003:**Undistributed earnings:**

Ordinary income	\$18,753
Long-term capital gains	\$15,766

Reclassifications:

Net realized capital gains	(\$1,634)
Reclassified as:	
Net investment income not yet distributed	\$1,634

Statement of

Operations

For September 1, 2002 through August 31, 2003. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

Investment Income

Interest	\$39,056
Lending of securities	309
Dividends	+ 295
Total investment income	39,660

Net Realized Gains and Losses

Net realized gains on investments sold	43,377
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Net Unrealized Gains and Losses

Net unrealized losses on investments	(33,178)
Net unrealized depreciation on futures	+ (1)
Net unrealized losses	(33,179)

Expenses

Investment adviser and administrator fees	2,702
Transfer agent and shareholder service fees	2,616
Trustees' fees	14
Custodian and portfolio accounting fees	118
Professional fees	30
Registration fees	31
Shareholder reports	125
Other expenses	+ 26
Total expenses	5,662
Expense reduction	- 1,169
Net expenses	4,493

Increase in Net Assets from Operations

Total investment income	39,660
Net expenses	- 4,493
Net investment income	35,167
Net realized gains	43,377
Net unrealized losses	+ (33,179)
Increase in net assets from operations	\$45,365

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through at least November 15, 2003, to 0.45% of average daily net assets. Prior to November 16, 2002, this limit was 0.35%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$10,198.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers are x 1,000.

Operations

	9/1/02-8/31/03	9/1/01-8/31/02
Net investment income	\$35,167	\$46,023
Net realized gains	43,377	4,299
Net unrealized gains or losses	+ (33,179)	10,232
Increase in net assets from operations	45,365	60,554

Distributions Paid

Dividends from net investment income	37,803	45,256
Distributions from net realized gains on investments	+ 9,120	15,184
Total distributions paid	\$46,923	\$60,440

Transactions in Fund Shares

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	34,089	\$351,983	45,679	\$460,968
Shares reinvested	4,171	43,002	5,324	53,370
Shares redeemed	+ (40,877)	(421,166)	(38,444)	(388,007)
Net transactions in fund shares	(2,617)	(\$26,181)	12,559	\$126,331

Shares Outstanding and Net Assets

	9/1/02-8/31/03		9/1/01-8/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	103,072	\$1,052,882	90,513	\$926,437
Total increase or decrease	+ (2,617)	(27,739)	12,559	126,445
End of period	100,455	\$1,025,143	103,072	\$1,052,882

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions paid for the current report period are:

Ordinary income	\$43,912
Long-term capital gains	\$3,011

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes distributions in excess of net investment income in the amount of \$518 for the current period and net investment income not yet distributed in the amount of \$484 for the prior period.

Percent of fund shares owned by other SchwabFunds® as of the end of the current period:

Schwab MarketTrack Portfolios*

Growth Portfolio	8.0%
Balanced Portfolio	16.8%
Conservative Portfolio	14.9%

Schwab Annuity Portfolios

Growth Portfolio II	0.3%
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Schwab GNMA Fund

Financial Statements

Financial Highlights

Investor Shares	3/3/03 ¹ – 8/31/03
Per-Share Data (\$)	
Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.06
Net realized and unrealized losses	(0.17)
Total income from investment operations	(0.11)
Less distributions:	
Dividends from net investment income	(0.20)
Net asset value at end of period	9.69
Total return (%)	(1.11) ²
Ratios/Supplemental Data (%)	
Ratios to average net assets:	
Net operating expenses	— ³
Gross operating expenses	0.99 ³
Net investment income	1.37 ³
Portfolio turnover rate	105
Net assets, end of period (\$ x 1,000,000)	21

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Select Shares[®]**3/3/03¹ –
8/31/03****Per-Share Data (\$)**

Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.06
Net realized and unrealized losses	(0.17)
Total income from investment operations	(0.11)
Less distributions:	
Dividends from net investment income	(0.20)
Net asset value at end of period	9.69
Total return (%)	(1.11) ²

Ratios/Supplemental Data (%)

Ratios to average net assets:	
Net operating expenses	— ³
Gross operating expenses	0.83 ³
Net investment income	1.37 ³
Portfolio turnover rate	105
Net assets, end of period (\$ x 1,000,000)	28

¹ Commencement of operations.² Not annualized.³ Annualized.

Portfolio Holdings as of August 31, 2003.

This section shows all the securities in the fund's portfolio and their market value, as of the report date.

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

① Top ten holding

▲ Delayed-delivery security

For fixed rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity date shown is the later of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
93.7% Collateralized Mortgage Obligations & Asset-Backed Obligations	53,031	52,315
5.4% Commercial Paper & Other Corporate Obligations	2,999	2,999
0.9% Other Investment Companies	534	534
100.0% Total Investments	56,564	55,848

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Collateralized Mortgage Obligations & Asset-Backed Obligations 93.7% of investments

U.S. Government Agency Securities 92.3%

Fannie Mae

⑩ Pool# 628210		
6.50%, 03/01/32	1,771	1,834
② Series 2003-22 Class UK		
4.00%, 09/21/31	4,900	4,749
④ Series 2003-37 Class FK		
1.91%, 05/25/33	4,181	4,182

Ginnie Mae

Pool# 585163		
5.00%, 02/15/18	1,761	1,783

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Pool# 3070		
8.00%, 11/15/03	1	1
Pool# 3073		
8.00%, 02/15/04	3	3
Pool# 3672		
8.00%, 02/15/04	13	14
Pool# 3556		
8.00%, 06/15/04	13	13
Pool# 3895		
8.00%, 06/15/04	15	15
Pool# 3936		
8.00%, 07/15/04	19	20
Pool# 6368		
8.00%, 06/15/05	35	37
Pool# 6371		
8.00%, 08/15/05	1	1
Pool# 6524		
8.00%, 08/15/05	22	23
Pool# 6797		
8.00%, 08/15/05	50	53
Pool# 7378		
8.00%, 09/15/05	52	54
Pool# 10840		
8.00%, 06/15/06	19	20
Pool# 11366		
8.00%, 08/15/06	61	64
Pool# 12016		
8.00%, 09/15/06	20	22
Pool# 13919		
8.00%, 12/15/06	54	57
Pool# 15531		
8.00%, 01/15/07	21	23
Pool# 17250		
8.00%, 09/15/07	1	1
Pool# 24200		
8.00%, 05/15/08	36	38
Pool# 25484		
8.00%, 05/15/08	109	117
Pool# 23178		
8.00%, 06/15/08	86	93
Pool# 23912		
8.00%, 08/15/08	67	72
Pool# 33545		
8.00%, 08/15/09	54	58
Pool# 358813		
7.50%, 07/15/23	870	933
Pool# 345964		
7.00%, 11/15/23	325	346
Pool# 780168		
6.50%, 05/15/24	138	144

Portfolio Holdings continued

Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)	Security Series	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Rate, Maturity Date			Rate, Maturity Date		
Pool# 780560 6.50%, 05/15/24	258	269	9 Pool# 603324 6.00%, 12/15/32	2,315	2,366
Pool# 780034 7.00%, 08/15/24	862	916	6 Pool# 581491 6.00%, 02/15/33	2,610	2,668
Pool# 416898 7.50%, 04/15/26	258	275	3 Pool# 604141 6.00%, 03/15/33	4,643	4,745
Pool# 780421 7.50%, 08/15/26	385	411	5 Pool# 611514 5.50%, 04/15/33	2,941	2,943
Pool# 451364 8.50%, 08/15/27	36	39	Pool# 604338 5.00%, 05/15/33	1,487	1,444
Pool# 454376 7.50%, 03/15/28	23	25	▲ 5.00%, 09/01/33	1,500	1,455
Pool# 780770 6.00%, 04/15/28	678	694	▲ 6.50%, 09/01/33	1,500	1,560
Pool# 458886 7.00%, 05/15/28	332	351	▲ 7 5.50%, 10/01/33	2,500	2,489
Pool# 780794 8.50%, 05/15/28	178	193			51,542
Pool# 478297 7.50%, 06/15/28	562	599	Non-U.S. Government Agency Securities 1.4%		
Pool# 490807 7.00%, 11/15/28	507	537	Variable Rate Obligations 1.4%		
Pool# 510418 9.00%, 09/15/29	90	98	Morgan Stanley Dean Witter Capital I Series 2002-NC4N 9.50%, 09/25/32	772	773
Pool# 434648 8.50%, 12/15/29	15	17	Commercial Paper & Other Corporate Obligations 5.4% of investments		
Pool# 520466 9.00%, 01/15/30	15	16	General Mills, Inc. 1.10%, 09/22/03	1,000	1,000
Pool# 515763 9.00%, 06/15/30	11	12	General Motors Acceptance Corp. 1.24%, 09/22/03	1,000	999
Pool# 515799 9.00%, 06/15/30	12	13	Washington Mutual Capital I 1.18%, 09/02/03	1,000	1,000
Pool# 515814 9.00%, 06/15/30	26	28			2,999
Pool# 511872 7.00%, 01/15/31	752	795			
Pool# 538229 6.50%, 08/15/31	736	766	Security and Number of Shares		Mkt. Value (\$ x 1,000)
Pool# 563325 7.00%, 08/15/31	1,725	1,825	Other Investment Companies 0.9% of investments		
Pool# 569704 6.00%, 02/15/32	802	819			
Pool# 590373 6.50%, 08/15/32	1,146	1,192	Provident Institutional Funds— Fed Funds Portfolio 534,271		534
1 Pool# 552763 6.50%, 09/15/32	4,653	4,842			
8 Pool# 599752 6.50%, 10/15/32	2,278	2,370	End of portfolio holdings. For totals, please see the		

Statement of

Assets and Liabilities

As of August 31, 2003. All numbers are x 1,000 except NAV.

Assets

Investments, at market value	\$55,848
Receivables:	
Fund shares sold	66
Interest	228
Due from advisor	32
Prepaid expenses	+ 38
Total assets	56,212

Liabilities

Payables:	
Fund shares redeemed	1,279
Dividends to shareholders	168
Investments bought	5,554
Accrued expenses	+ 33
Total liabilities	7,034

Net Assets

Total assets	56,212
Total liabilities	- 7,034
Net assets	\$49,178

Net Assets by Source

Capital received from investors	50,863
Net realized capital losses	(969)
Net unrealized capital losses	(716)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$20,794		2,145		\$9.69
Select Shares®	\$28,384		2,928		\$9.69

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$56,564. For long-term government securities, the fund paid \$109,407 during the report period and received \$54,915 for securities it sold or that matured.

These derive from investments.

Federal Tax Data

Portfolio cost	\$56,564
Net unrealized gains and losses:	
Gains	\$10
Losses	+ (726)
	(\$716)

As of August 31, 2003:**Undistributed earnings:**

Ordinary income	\$168
Long-term capital gains	\$—

Deferred capital losses	\$969
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Reclassifications:

Net realized capital gains	(728)
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Reclassified as:	
Net investment income not yet distributed	\$728

Statement of

Operations

For March 3, 2003 through August 31, 2003. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

Investment IncomeInterest **\$367****Net Realized Gains and Losses**Net realized losses on investments sold **(241)****Net Unrealized Gains and Losses**Net unrealized losses on investments **(716)****Expenses**

Investment adviser and administrator fees 121

Transfer agent and shareholder service fees:

Investor Shares 26

Select Shares® 16

Trustees' fees 3

Custodian and portfolio accounting fees 20

Professional fees 16

Registration fees 23

Shareholder reports 12

Other expenses + 3

Total expenses 240

Expense reduction - 240

Net expenses -**Decrease in Net Assets from Operations****Total investment income 367****Net expenses - -****Net investment income 367****Net realized losses (241)****Net unrealized losses + (716)****Decrease in net assets from operations (\$590)**

Calculated as 0.45% of average daily net assets.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.05% of the assets of each respective share class. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

Includes \$197 from the investment adviser (CSIM) and \$43 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through August 31, 2003 at 0.00% for both Investor Shares and Select® shares. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$957.

Statements of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on March 3, 2003, it has no prior report period. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

Operations

	3/3/03–8/31/03
Net investment income	\$367
Net realized losses	(241)
Net unrealized losses	+ (716)
Decrease in net assets from operations	(590)

Distributions Paid**Dividends from Net Investment Income**

Investor Shares	427
Select Shares®	+ 668
Total dividends from net investment income	\$1,095

Transactions in Fund Shares

	3/3/03–8/31/03	
	SHARES	VALUE
Shares Sold		
Investor Shares	2,781	\$27,703
Select Shares	+ 4,705	46,833
Total shares sold	7,486	\$74,536

Shares Reinvested

Investor Shares	27	\$274
Select Shares	+ 42	412
Total shares reinvested	69	\$686

Shares Redeemed

Investor Shares	(663)	(\$6,523)
Select Shares	+ (1,819)	(17,836)
Total shares redeemed	(2,482)	(\$24,359)

Net transactions in fund shares

5,073 \$50,863

Shares Outstanding and Net Assets

	3/3/03–8/31/03	
	SHARES	NET ASSETS
Beginning of period	—	\$—
Total increase	+ 5,073	49,178
End of period	5,073	\$49,178

The tax-basis components of distributions paid for the current report period are:

Ordinary income	\$1,095
Long-term capital gains	\$—

The difference of net investment income between financial statement and tax purposes are:

Paydown losses	\$728
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Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes

Business Structure of the Funds

Each of the funds discussed in this report is a series of Schwab Investments, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

Both Schwab YieldPlus Fund® and Schwab GNMA Fund offer two share classes: Investor Shares and Select Shares®. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums. Schwab Short-Term Bond Market and Total Bond Market Funds each offers one share class.

Shares are bought and sold at net asset value, or NAV, which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trustees may issue as many shares as necessary.

The Trust and Its Funds

This list shows all of the funds included in Schwab Investments. The funds discussed in this report are highlighted.

Schwab Investments organized October 26, 1990

Schwab 1000 Fund®

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund

Schwab Total Bond Market Fund

Schwab GNMA Fund

Schwab Short/Intermediate Tax-Free Bond Fund

Schwab Long-Term Tax-Free Bond Fund

Schwab California Short/Intermediate

Tax-Free Bond Fund

Schwab California Long-Term Tax-Free Bond Fund

Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

The funds declare dividends every day they are open for business. These dividends, which are substantially equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

The funds may enter into swap agreements. In these transactions, a fund and a counterparty agree to swap payments that are based on two different rates. The counterparty is typically a large financial institution, and the term of the swap is specified in advance. For example, a fund may agree that for six months it will pay the counterparty the equivalent of the interest on a given amount invested at LIBOR (the London Interbank Offered Rate). In exchange, the counterparty might agree to pay a fund the equivalent of the same amount invested in a certain bond index during this same six months.

Swap agreements carry certain risks. Because the net gains or losses stemming from a swap agreement depend on the movements of one rate relative to another, a fund could experience unanticipated losses if one or both rates failed to behave as expected. A fund also could lose money if a counterparty failed to honor the terms of a swap agreement.

The funds may loan securities to certain brokers, dealers and other financial institutions who pay the funds negotiated fees. The funds receive cash, letters of credit or U.S. Government securities as collateral on these loans. All of the cash collateral received is reinvested in high quality, short-term investments. The value of the collateral must be at least 102% of the market

value of the loaned securities as of the first day of the loan, and at least 100% each day thereafter.

The funds may buy securities on a delayed-delivery basis. In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The funds may also sell securities short (sell securities they do not own). When they do so, the funds also place assets worth at least 100% of the value of the short securities into segregated accounts, as collateral. If the market value of the short securities subsequently falls, the funds can realize a gain by closing the position. However, if the value rises, the funds typically would have to add to their collateral or close out their short position at a loss. The potential for losses associated with short positions is much greater than the original value of the securities sold short and may exceed amounts recorded in the Statements of Assets and Liabilities.

The funds may invest in futures contracts. Futures contracts involve certain risks because they can be very sensitive to market movements.

One risk is that the price of a futures contract may not move in perfect correlation with the price of the underlying securities. Another risk is that, at certain times, it may be impossible for a fund to close out a position in a futures contract, due to a difference in trading hours or to market conditions that may reduce the liquidity for a futures contract or its underlying securities.

Because futures carry inherent risks, a fund must give the broker a deposit of cash and/or securities (the "initial margin") whenever it enters into the futures contract. The amount of the deposit may vary from

one contract to another, but it is generally a percentage of the contract amount.

Futures are traded publicly on exchanges, and their market value changes daily. A fund records the change in market value of futures, and also the change in the amount of margin deposit required ("variation margin").

The funds may enter into "TBA" (to be announced) purchase commitments to purchase securities for a fixed price at a future date, typically not exceeding 45 days. TBAs may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to settlement date. This risk is in addition to the risk of decline in a fund's other assets.

The funds may enter into mortgage dollar roll transactions. In these transactions, a fund sells mortgage-backed securities for delivery in the current month and simultaneously agrees to buy back, on a given date in the future, securities of a similar type, coupon rate and maturity. Dollar roll transactions involve the risk that the market value of the security sold short by the fund may decline below the repurchase price of similar securities.

The funds pay fees to affiliates of the Investment Advisor for various services. Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund's Statement of Operations.

The funds may engage in certain transactions involving affiliates. For instance, a fund may let other SchwabFunds® buy and sell fund shares, particularly Schwab MarketTrack Portfolios®.

The funds may make direct transactions with certain other SchwabFunds when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab.

Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trusts to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

The funds intend to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the funds distribute substantially all of their net investment income and net realized capital gains (if any) to their respective shareholders each year. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of paydown gains and losses and amortization of bond discounts and premiums. As long as a fund meets the tax requirements, it is not required to pay federal income tax.

Under the funds’ organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds.

In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds’ maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the funds. However, based on experience, the funds expect the risk of loss to be remote.

Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

The funds value the securities in their portfolios every business day. The funds use the following policies to value various types of securities:

Bonds and notes: valued at halfway between the most recent bid and asked quotes or, if such quotes are unavailable, at prices for securities of comparable maturity, credit quality and type. Valuations for bonds and notes are provided by an independent bond-pricing service.

Securities for which no quoted value is available, including restricted securities: valued at fair value, as determined in good faith by the fund’s investment adviser using guidelines adopted by the fund’s Board of Trustees.

Swap agreements: each open contract is valued at a formula that varies with the specific terms of the agreement.

Futures and forwards: open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.

Short-term securities (60 days or less to maturity): valued at amortized cost.

If a fund sells securities short, it records the proceeds received as an asset and the obligation to buy back the securities as a liability. At the time a short sale is initiated, the asset and the liability are of equal value and effectively cancel each other out. Subsequently, the fund values the liability side of the transaction according to the market price of the securities sold short, and values the asset side according to the value of the proceeds. When the fund closes out a short position (buys the security), it records the outcome as a realized gain or loss. Interest accrued on securities sold short is recorded as an expense on the fund's records.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If a fund bought a debt security at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved. Gains and losses from paydowns on mortgage and asset backed securities are recorded as adjustments to interest income.

Expenses that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their net assets.

For funds offering multiple share classes, all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

Each fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, each fund also keeps certain assets in segregated accounts, as may be required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Report of Independent Accountants

To the Board of Trustees and Shareholders of:

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund

Schwab Total Bond Market Fund

Schwab GNMA Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab YieldPlus Fund®, Schwab Short-Term Bond Market Fund, Schwab Total Bond Market Fund and Schwab GNMA Fund (four of the portfolios constituting Schwab Investments, hereafter referred to as the “Funds”) at August 31, 2003, the results of each of their operations for the period then ended, and the changes in each of their net assets and the financial highlights for the periods presented in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, CA

October 10, 2003

Fund Trustees unaudited

A fund’s Board of Trustees is responsible for protecting the interests of that fund’s shareholders. The tables below give information about the people who serve as trustees and officers for the SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the SchwabFunds (of which there were 49 as of 8/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab² 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03:</i> Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03:</i> Co-Chair, The Charles Schwab Corporation. <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01:</i> Director, The Charles Schwab Trust Company. <i>Until 1/99:</i> Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

¹ The SchwabFunds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

Individuals Who Are Interested Trustees but Not Officers of the Trust

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Dawn G. Lepore ¹ 3/21/54	Trustee: 2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
Jeffrey M. Lyons ¹ 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

Individuals Who Are Officers of the Trust but Not Trustees

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
Tai-Chin Tung 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

¹ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Solectron Corp. (manufacturing), Tenera, Inc. (services and software), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Networks (telecommunications); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2002</i> : Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset allocation The practice of dividing a portfolio among different asset classes, with each asset class assigned a particular percentage.

asset-backed security A bond or other debt security that represents ownership in a pool of debt obligations such as credit card debt.

asset class A group of securities with similar structure and basic characteristics. Stocks, bonds and cash are the three main examples of asset classes.

average rate The average rate of interest paid annually by the fixed-income securities in a fund or portfolio.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the "coupon rate") until a specified date (the "maturity date"), at which time the issuer returns the money borrowed ("principal" or "face value") to the bondholder. Because of their structure, bonds are sometimes called "fixed-income securities" or "debt securities."

call An early repayment of a bond's principal by the issuer, usually done because the issuer is able to refinance its bond debt at a lower rate.

call protection A term used in reference to a bond that cannot be called by the issuer before maturity, or at least for many years from the present date. A bond that offers call protection can more reliably be expected to provide a given yield over a given number of years than a bond that could be called (assuming both bonds are of the same credit quality).

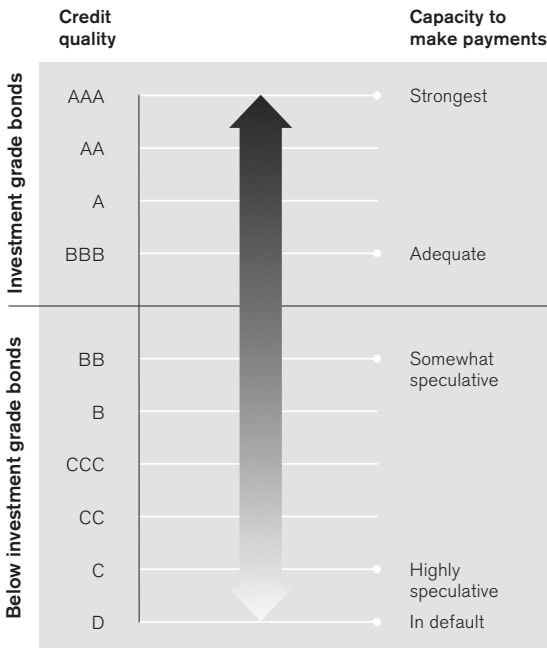
capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

certificate of participation A municipal bond that is repaid from an annual budget appropriation rather than being backed by the full faith and credit of the issuer.

coupon, coupon rate The annual rate of interest paid until maturity by the issuer of a debt security.

Credit Ratings

Most major bond issuers arrange with a recognized independent rating organization, such as Standard & Poor's (S&P) or Moody's Investors Service, to rate the credit-worthiness of their bonds. The spectrum of these ratings is divided into two major categories: investment grade and below investment grade (sometimes called "junk bonds"). Bonds rated below investment grade range from those that are considered to have some vulnerability to default to those that appear on the brink of default or are in default.



credit quality The capacity of an issuer to make its interest and principal payments. See chart on prior page.

credit risk The risk that a bond issuer may be unable to pay interest or principal to its bondholders.

discount rate The implied rate on a debt security that does not pay interest but is bought at a discount and redeemed at face value when it matures.

dividend Money from earnings that is distributed to shareholders as a given amount per share.

duration A measure of a bond investment's sensitivity to interest rates. Calculations of duration take into account the investment's yield, interest payments, maturity date and call features. Like maturity, duration is expressed in years, but is more accurate than maturity in determining the effect of interest rate movements on a bond investment's price.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

general obligation bond A municipal bond that is secured by the issuer's full faith and credit, which typically is backed by the power of the issuer to levy taxes.

interest Payments to bondholders (usually made twice a year) as compensation for loaning the bond principal to the issuer.

interest rate risk The risk that a bond's value will fluctuate if market interest rates change or are expected to change. Bond prices tend to move in the opposite direction of interest rates: when interest rates rise, bond prices tend to fall.

market risk Those elements of risk that are common to all securities in an asset class, and therefore cannot be significantly reduced by diversification within the asset class. Also known as "systematic risk."

maturity The date a bond is scheduled to be "retired" and its principal amount returned to the bondholder.

mortgage-backed security A bond or other debt security that represents ownership in a pool of mortgage loans.

muni, municipal bond, municipal security Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construc-

tion of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

prepayment risk The risk that a mortgage-backed security may be paid off early, typically because interest rates have fallen and the homeowners who hold the underlying mortgages have refinanced those mortgages at lower rates. In this type of situation, the investor who held the mortgage-backed security will usually have to settle for a lower rate when reinvesting the principal.

revenue bond A municipal bond that is issued to finance public works projects and is secured by revenue generated by the project (such as water and sewer fees) rather than the full faith and credit of the issuer.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

weighted average For mutual funds, an average that gives the same weight to each security as the security represents in the fund's portfolio.

weighted average maturity For mutual funds, the maturity of all the bonds in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

yield to maturity The annualized rate of return a bondholder could expect if the bond were held to maturity. In addition to interest payments, yield to maturity also factors in any difference between a bond's current price and its principal amount, or face value.

Notes

Contact Schwab

SchwabFunds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies.

Actively managed funds include multi-manager stock funds, a fund that uses long-short strategies, and a range of taxable and tax-free bond funds. Index funds include large-cap, small-cap and international stock funds. The list at right shows all currently available SchwabFunds.

Whether you're an experienced investor or just starting out, SchwabFunds can help you achieve your financial goals. Please call 1-800-435-4000 for a free prospectus and brochure for any SchwabFund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to SchwabFunds at:

P.O. Box 3812

Englewood, CO 80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

The SchwabFunds Family®

Stock Funds

Schwab S&P 500 Fund

Schwab 1000 Fund®

Schwab Small-Cap Index Fund®

Schwab Total Stock Market Index Fund®

Schwab International Index Fund®

Schwab Core Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Schwab Dividend Equity Fund™

Schwab Focus Funds

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

Schwab MarketMasters Funds™

Schwab U.S. MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

Asset Allocation Funds

Schwab MarketTrack Portfolios®

Schwab All Equity Portfolio

Schwab Growth Portfolio

Schwab Balanced Portfolio

Schwab Conservative Portfolio

Bond Funds

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund™

Schwab Total Bond Market Fund™

Schwab GNMA Fund™

Schwab Short/Intermediate Tax-Free Bond Fund™

Schwab Long-Term Tax-Free Bond Fund™

Schwab California Short/Intermediate
Tax-Free Bond Fund™

Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your Schwab account to "sweep" cash balances automatically when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

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REG13655-05